AUSTRALIAN ENERGY MARKET COMMISSION

RULE

Draft rule determination

National Electricity Amendment (Shortening the settlement cycle) Rule

Proponent

GloBird Energy Pty Ltd

8 August 2024

Inquiries

Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

E aemc@aemc.gov.au
T (02) 8296 7800

Reference: ERC0384

About the AEMC

The AEMC reports to the energy ministers. We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the energy ministers.

Acknowledgement of Country

The AEMC acknowledges and shows respect for the traditional custodians of the many different lands across Australia on which we all live and work. We pay respect to all Elders past and present and the continuing connection of Aboriginal and Torres Strait Islander peoples to Country. The AEMC office is located on the land traditionally owned by the Gadigal people of the Eora nation.

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Summary

1 The Commission has decided to make a more preferable draft rule (draft rule) in response to a rule change request submitted by GloBird Energy (the proponent) on 6 December 2023. The draft rule would amend the National Electricity Rules (NER) to shorten the National Electricity Market (NEM) settlement from 20 business days following the end of a billing period, to 11 business days.

2 A shorter NEM settlement cycle would reduce working capital requirements for market participants by:

- lowering the quantum of credit support that market participants must lodge with the Australian Energy Market Operator (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.

3 This change would benefit smaller retailers in particular, which typically have less access to capital and higher financing costs. Lowering working capital requirements for smaller retailers would support increased investment in service innovation, lower barriers to retail electricity market entry, and reduce the risk of retailer failure. This in turn would have material benefits for consumers through access to better service offerings, more choice, and more competitive pressure on retail prices. We consider that these benefits outweigh potential risks.

4 We consider that there should be an 18-month implementation period following publication of the final rule, to allow AEMO sufficient time to update relevant procedures and guidelines, and participants to adjust any necessary contracts. The rules to shorten the settlement cycle to 11 business days would commence on the first day of the first billing period following the amendment and publication (where necessary) of AEMO's relevant procedures, policies, and guidelines.

5 We are seeking feedback on our draft determination and rule by **3 October 2024**.

There is currently a 20-business day NEM settlement cycle

6 Under current arrangements, there is a 20-business day process to settle transactions on the NEM for a given 7-day 'billing period'. Under this settlement process, AEMO uses metering data to generate preliminary and then final statements for market participants, who then settle on the 20th business day following the end of a billing period.

7 The 20-business day settlement cycle is supported by a first revisions process at 20 weeks following the end of a billing period (R1), and a second revisions process at 30 weeks (R2). These revisions processes factor in manually read accumulation meters, as well as any customer transfers between retailers.

8 We note that the 20-business day settlement cycle was established in a context of a much higher rate of manually read accumulation meters, relative to today's growing penetration of remotely read interval meters across the NEM.

The length of the settlement cycle is linked to the prudential regime

9 The length of the settlement cycle is linked to the impact of the prudential regime on market participants in two key ways:

1. **The quantum of credit support that market participants must lodge with AEMO** - under the prudential regime, market participants must lodge credit support with AEMO equivalent to their Maximum Credit Limit (MCL). The length of the settlement cycle is a direct input to the calculation of the MCL, such that a longer settlement cycle leads to a higher MCL, and therefore a higher quantum of credit support that market participants must lodge with AEMO.
2. **How market participants manage the risk of Call Notices** - the settlement of over-the-counter (OTC) hedge products is linked to the NEM settlement cycle. Under the current 20 business day NEM settlement cycle, there may often be a significant time lag between when market participants must respond to a Call Notice from AEMO, and when they receive the benefit of offsetting difference payments from their hedge contracts. This means that prudent market participants may often hold additional working capital to respond to AEMO Call Notices during the settlement cycle.

The draft rule would shorten the NEM settlement cycle to 11 business days

10 The draft rule would shorten the NEM settlement cycle to 11 business days following the end of a billing period. This differs from the proponent's rule change request, which sought to shorten the settlement cycle to 10 business days.

11 This additional day in the settlement cycle addresses feedback from AEMO noting that under the proponent's proposal draft and final statements would be issued on the same day of the week. Issuing two sets of statements on the same day of the week would create administrative pressures for AEMO. Key proposed changes to the settlement cycle are outlined in Table 1 below.

Table 1: Key proposed changes to shorten the settlement cycle

Subject	Current settlement process	Draft rule
Preliminary statements (no change)	AEMO must give each market participant a preliminary statement within **5 business days** after the end of each billing period	AEMO must give each market participant a preliminary statement within **5 business days** after the end of each billing period
Final statements	AEMO must give each market participant a final statement no later than **18 business days** after the end of each billing period	AEMO must give each market participant a final statement no later than **9 business days** after the end of each billing period
Disputes	In the event of a dispute, parties must use reasonable endeavours to resolve the dispute within **15 business days** of the end of the relevant billing period	In the event of a dispute, parties must use reasonable endeavours to resolve the dispute within **7 business days** of the end of the relevant billing period
Payment dates	The payment date is the **20th business day** after the end of a billing period, or 2 business days after receiving a final statement, whichever is the later.	The payment date is the **11th business day** after the end of a billing period, or 2 business days after receiving a final statement, whichever is the later.

Source: NER chapter 3, chapter 10

A shorter settlement cycle would benefit consumers

12 We consider that shortening the settlement cycle would deliver significant benefits to consumers. Shortening the settlement cycle would reduce the quantum of credit support that market participants must lodge with AEMO. It would also shorten the settlement cycle for OTC hedge products, which will lower the quantum of capital participants may hold to respond to AEMO Call Notices.

13 Freeing up working capital for market participants is expected to have a particularly significant impact for smaller retailers, which generally have less access to capital and a higher cost of finance. Access to more working capital will support retailers to invest further in service innovations and expanded offerings for consumers. These changes would also reduce barriers to entry into the retail electricity market, which will in turn support competition, more choice, and competitive pressure on prices for consumers.

14 We note the critical role that smaller retailers play in driving competition and value for consumers in the NEM. We also acknowledge that small and standalone retailers may face different costs, risks, and pressures relative to other market participants. This increases the relative importance of changes to the settlement cycle for smaller retailers.

The Commission has considered stakeholder feedback and further analysis from AEMO in making its decision

15 Our draft determination has been shaped by the 11 stakeholder submissions we received in response to the consultation paper. Stakeholder feedback was mixed, and generally did not provide in-depth supporting analysis.

16 Some stakeholders considered that the current length of the settlement cycle was no longer fit for purpose, unnecessarily long, and that shortening the settlement cycle would have material benefits for both market participants and consumers.

17 Other stakeholders questioned whether shortening the settlement cycle would achieve the scale of benefits anticipated by the proponent, and considered that any changes to the settlement cycle should be made with careful consideration regarding AEMO's implementation costs, meter data accuracy impacts, and impacts to the prudential regime.

18 Our draft determination has also been informed by further analysis we received from AEMO regarding the internal AEMO processes that underpin the settlement cycle, and potential impacts to data accuracy under a shorter settlement cycle. As noted in this further analysis, for market participants shortening the settlement cycle may represent a trade-off between a reduction in working capital requirements and an increase in settlement variation throughout the revisions process.

We assessed our draft rule against four assessment criteria using regulatory impact analysis and stakeholder feedback

19 The Commission has considered the NEO[1] and the issues raised in the rule change request and assessed the draft rule against four assessment criteria outlined below. We gathered stakeholder feedback and undertook regulatory impact analysis in relation to these criteria.

20 The more preferable draft rule would contribute to achieving the NEO by:

1 Section 7 of the NEL.

- **improving outcomes for consumers** – lower working capital requirements for market participants would benefit smaller retailers in particular, by lowering barriers to market entry and increasing the ability to invest in service innovation. This increased competition and investment would in turn benefit consumers through more choice and competitive offerings.
- **driving market efficiency** - we consider that our draft rule would support a more modern and efficient settlement process that reflects changes in technology, such as growing smart meter penetration. Faster settlement on the NEM would also align more closely with settlement of related financial contracts.
- **supporting innovation and flexibility** – shortening the NEM settlement cycle to 11 business days would increase working capital available to market participants, to invest in innovative services. We also consider that a shorter settlement cycle would support more flexible cash flow and access to capital for market participants.
- **considering implementation matters** - we consider that our more preferable draft rule of 11 business days is implementable and strikes an effective balance between achieving the benefits of a shortened settlement cycle and managing AEMO operational considerations. However, we also note that important implementation information (in particular information regarding AEMO's implementation costs) will only become available once AEMO completes its High Level Implementation Assessment (HLIA) following publication of this draft determination.

There would be an 18-month implementation period

21 The draft rule transitional provisions provide an 18-month implementation period. This would allow AEMO sufficient time to review and update relevant procedures and guidelines relating to the settlement, prudential and, metering data processes. We also consider that 18 months would give market participants that settle on the NEM an appropriate amount of time to prepare for the new settlement process.

22 Therefore, the rule changes to shorten the settlement cycle process to 11 business days would commence on the first day of the first billing period after 30 April 2026, following the amendment and publication of AEMO's procedures and guidelines. This commencement date will be specified and included in the final rule.

Further information regarding implementation costs will be important in informing our final determination

23 We note there would likely be implementation costs for AEMO, as the entity responsible for NEM settlements. AEMO did not provide implementation costings in its response to the consultation paper, and has advised that it will publicly share costings as part of its High Level Implementation Assessment (HLIA), following publication of the draft determination.

24 We consider that this additional information regarding implementation costs will be a critical input into our decision-making regarding the final determination. We also note that this information will be important in informing stakeholder submissions in response to this draft determination.

How to make a submission

We encourage you to make a submission

Stakeholders can help shape the solution by participating in the rule change process. Engaging with stakeholders helps us understand the potential impacts of our decisions and contributes to well-informed, high quality rule changes.

How to make a written submission

Due date: Written submissions responding to this draft determination and rule must be lodged with Commission by 3 October 2024.

How to make a submission: Go to the Commission's website, www.aemc.gov.au, find the "lodge a submission" function under the "Contact Us" tab, and select the project reference code ERC0384.[2]

Tips for making submissions on rule change requests are available on our website.[3]

Publication: The Commission publishes submissions on its website. However, we will not publish parts of a submission that we agree are confidential, or that we consider inappropriate (for example offensive or defamatory content, or content that is likely to infringe intellectual property rights).[4]

Next steps and opportunities for engagement

There are other opportunities for you to engage with us, such as one-on-one discussions or industry briefing sessions.

You can also request the Commission to hold a public hearing in relation to this draft rule determination.[5]

Due date: Requests for a hearing must be lodged with the Commission by [insert date that is one week after the date the paper is published].

How to request a hearing: Go to the Commission's website, www.aemc.gov.au, find the "lodge a submission" function under the "Contact Us" tab, and select the project reference code **ERC0384.** Specify in the comment field that you are requesting a hearing rather than making a submission.[6]

For more information, you can contact us

Please contact the project leader with questions or feedback at any stage.

Project leader:	Julia Cassuben
Email:	julia.cassuben@aemc.gov.au

2 If you are not able to lodge a submission online, please contact us and we will provide instructions for alternative methods to lodge the submission

3 See: https://www.aemc.gov.au/our-work/changing-energy-rules-unique-process/making-rule-change-request/our-work-3

4 Further information about publication of submissions and our privacy policy can be found here: https://www.aemc.gov.au/contact-us/lodge-submission

5 Section 101(1a) of the NEL.

6 If you are not able to lodge a request online, please contact us and we will provide instructions for alternative methods to lodge the request.

Contents

1 The Commission has made a draft determination

On 6 December 2023, the Australian Energy Market Commission (the AEMC or Commission) received a rule change request from GloBird Energy Pty Ltd (the proponent). The rule change request sought to amend the National Electricity Rules (NER) to shorten the settlement cycle from 20 business days following the end of a billing period (as is current practice), to 10 business days.

In response to this rule change request, we have made a draft more preferable rule to shorten the settlement cycle to 11 business days. We consider that this change would reduce costs of the prudential regime for market participants, with benefits flowing through to consumers, and the stability and financial resilience of the electricity retail market. We are now seeking feedback on this draft rule.

This section outlines:

- an overview of our draft determination, which is to shorten the settlement cycle to 11 business days following the end of a trading week
- how our draft determination has been shaped by stakeholder feedback and further analysis from AEMO
- the importance of further information, particularly information regarding implementation and costs, in informing our position for the final determination.

1.1 Our draft rule will shorten the NEM settlement cycle to 11 business days

In response to the proponent's rule change request and stakeholder feedback to the consultation paper, we have made a more preferable draft rule to shorten the NEM settlement cycle to 11 business days following the end of a trading week. Key changes to shorten the settlement cycle are outlined in the table below:

Table 1.1: Key proposed changes to shorten the settlement cycle

Subject	Current settlement process	Draft rule
Preliminary statements (no change)	AEMO must give each market participant a preliminary statement within **5 business days** after the end of each billing period	AEMO must give each market participant a preliminary statement within **5 business days** after the end of each billing period
Final statements	AEMO must give each market participant a final statement no later than **18 business days** after the end of each billing period	AEMO must give each market participant a final statement no later than **9 business days** after the end of each billing period
Disputes	In the event of a dispute between a market participant and AEMO concerning either the net amount payable stated in the preliminary statement or any supporting data, parties must use reasonable endeavours to resolve the dispute within **15 business days** of the end of the relevant billing period	In the event of a dispute between a market participant and AEMO concerning either the net amount payable stated in the preliminary statement or any supporting data, parties must use reasonable endeavours to resolve the dispute within **7 business days** of the end of the relevant billing period

Subject	Current settlement process	Draft rule
Payment dates	The payment date is the **20th business day** after the end of a billing period, or 2 business days after receiving a final statement, whichever is the later.	The payment date is the **11th business day** after the end of a billing period, or 2 business days after receiving a final statement, whichever is the later.

Source: NER chapter 3, chapter 10

1.1.1 Our draft rule would impact AEMO's Credit Limit Procedures and lower the quantum of prudentials that market participants must lodge with AEMO

As part of the NEM prudential regime, market participants must lodge credit support with AEMO equivalent to each participant's Maximum Credit Limit (MCL). The purpose of lodging this credit support is to eliminate any risk to AEMO in the event that a market participant defaults and is unable to settle its outstandings. The length of the settlement cycle is a direct input into how the MCL is calculated under AEMO's Credit Limit Procedures.[7] Therefore, shortening the NEM settlement cycle would impact AEMO's Credit Limit Procedures, and lower the quantum of credit support that market participants must lodge with AEMO. These impacts are explored further in section 3.2.1 of this draft determination.

1.1.2 Our draft rule would shorten the settlement cycle for relevant over the counter hedge contracts linked to the NEM settlement calendar

Market participants often manage their exposure to price volatility in the NEM through various hedging contracts, which have varying settlement arrangements. Over-the-counter (OTC) contract trades are typically documented using the industry standard International Swaps and Derivatives (ISDA) Master Agreement, and have been standardised so that settlement occurs on the same day as settlement on the NEM. Therefore, a change to shorten the NEM settlement cycle to 11 business days would flow through these contracts.

1.1.3 There would be an 18-month implementation period to support AEMO and industry readiness

The draft rule provides an 18-month implementation period to give both AEMO and market participants sufficient time to prepare for the changes to the settlement cycle.

1.2 Our draft determination was shaped by stakeholder feedback and further analysis by AEMO

We received 11 submissions to the consultation paper, including from retailers, generators, AEMO, and industry organisations. Several key areas of feedback emerged from these submissions:

- some stakeholders considered that the length of the current settlement cycle is unnecessarily long, imposes costs and risks on market participants, and particularly impacts smaller non vertically integrated retailers [8]

7 Further information regarding the relationship between the length of the settlement cycle and the prudential regime can be found in section 2.2 of the consultation paper.

8 Submissions to the consultation paper: BlueNRG, ZEN Energy, Alinta, ENGIE

- some stakeholders considered that there would be material benefits to shortening the settlement cycle, and that these benefits would ultimately improve outcomes for consumers through more competition, choice, and competitive prices [9]
- some stakeholders noted that shortening the settlement cycle could impact data accuracy, and considered that more information regarding these impacts would be important in assessing the relative costs and benefits of such a rule change [10]
- some stakeholders did not consider that shortening the settlement cycle would necessarily achieve the reductions in prudential requirements anticipated by the proponent [11]
- some stakeholders noted that there may be significant implementation costs for AEMO in shortening the settlement cycle, and that understanding these costs further would be critical in assessing the relative costs and benefits of this proposal.

In addition to this stakeholder feedback to the consultation paper, our draft determination has also been informed by supplementary analysis from AEMO regarding the detailed AEMO processes that underpin the settlement cycle, and potential impacts to data accuracy. [12]

1.3 Further information regarding costs will be important in informing our final determination

Our consultation paper of 22 February 2024 noted that there would likely be implementation costs associated with shortening the settlement cycle, particularly for AEMO as the entity responsible for running settlements processes. AEMO did not provide an analysis of implementation costings in its response to the consultation paper, and we are therefore unable at this stage to assess the potential implementation costs against the benefits of the proposed change.

AEMO will prepare costings as part of its High Level Implementation Assessment (HLIA) following publication of this draft determination. The Commission notes that this cost assessment will be important in understanding the relative costs and benefits of this change, and a critical input in informing the final determination. These implementation cost considerations are discussed further in Chapter 3 of this determination.

9 Submissions to the consultation paper: BlueNRG, ZEN Energy, Alinta
10 Submissions to the consultation paper: EnergyAustralia, AGL, Alinta, AEC, ENGIE
11 Submissions to the consultation paper: Origin Energy, EnergyAustralia, AGL, Shell
12 This supplementary analysis from AEMO can be found on the project webpage.

2 The rule would contribute to the energy objectives

We consider that our more preferable draft rule would promote the NEO. We consider that reducing working capital requirements for market participants would have a particularly significant impact for smaller retailers, which generally have higher finance costs and lower access to capital. Reducing these costs for small retailers would allow them to invest further in innovative new service offerings for customers, promoting better consumer outcomes. Reducing working capital requirements would also lower barriers to entry in the retail electricity market, increasing competition, giving consumers more choice, and putting more competitive pressure on prices.

2.1 The Commission must act in the long-term interests of energy consumers

The Commission can only make a rule if it is satisfied that the rule will or is likely to contribute to the achievement of the relevant energy objectives.[13]

For this rule change, the relevant energy objective is the NEO.

The NEO is:[14]

> to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to—
>
> (a) price, quality, safety, reliability and security of supply of electricity; and
>
> (b) the reliability, safety and security of the national electricity system; and
>
> (c) the achievement of targets set by a participating jurisdiction—
>
> (i) for reducing Australia's greenhouse gas emissions; or
>
> (ii) that are likely to contribute to reducing Australia's greenhouse gas emissions.

The targets statement, available on the AEMC website, lists the emissions reduction targets to be considered, as a minimum, in having regard to the NEO.[15]

2.2 We must also take these factors into account

2.2.1 We have considered whether to make a more preferable rule

The Commission may make a rule that is different, including materially different, to a proposed rule (a more preferable rule) if it is satisfied that, having regard to the issue or issues raised in the rule change request, the more preferable rule is likely to better contribute to the achievement of the NEO.[16] For this rule change, the Commission has made a more preferable draft rule. The reasons are set out in section 2.3 below.

13 Section 88(1) of the NEL.

14 Section 7 of the NEL.

15 Section 32A(5) of the NEL.

16 Section 91A of the NEL.

2.2.2 We have considered how the rule would apply in the Northern Territory

In developing the draft rule, the Commission has considered how it should apply to the Northern Territory according to the following questions:

- Should the NEO test include the Northern Territory electricity systems? For this rule change request, the Commission has determined that the reference to the “national electricity system” in the NEO includes the local electricity systems in the Northern Territory.
- Should the rule be different in the Northern Territory? The Commission has determined that a uniform rule should apply to the Northern Territory.

Chapter 3 of the NER (Market Rules) does not currently apply in the Northern Territory and has no effect in that jurisdiction. However, Chapter 10 of the NER (Glossary) does apply in the Northern Territory. The draft rule proposes to amend the definition of “*payment date*” which is set out in Chapter 10. The only references to the term “*payment date”* are found in a few clauses in Chapter 3. Therefore, the proposed changes to the definition will not impact the operation of the Northern Territory version of the NER and will have no practical relevance.

See Appendix C for more detail on the legal requirements for our decision.

2.3 How we have applied the legal framework to our decision

The Commission must consider how to address improvements to the length of the settlement cycle against the legal framework.

We identified the following criteria to assess whether the proposed rule change, no change to the rules (business-as-usual), or other viable, rule-based options are likely to better contribute to achieving the NEO:

- outcomes for consumers
- principles of market efficiency
- innovation and flexibility
- implementation considerations

These assessment criteria reflect the key potential impacts – costs and benefits – of the rule change request, for impacts within the scope of the NEO. Our reasons for choosing these criteria are set out in section 4.2 of the consultation paper.

The Commission has undertaken regulatory impact analysis to evaluate the impacts of the various policy options against the assessment criteria. **Appendix B** outlines the methodology of the regulatory impact analysis.

The rest of this section explains why the draft rule best promotes the long-term interest of consumers when compared to other options and assessed against the criteria.

2.3.1 We are making a more preferable draft rule

We have made a more preferable draft rule, taking into account feedback received from AEMO. Under the proponent’s rule change request, AEMO would be required to run preliminary and final settlements on the same day of the week, which would likely create operational and administrative pressures for the AEMO settlements team. Under our more preferable draft rule, these two processes would not occur on the same day of the week. We are also not proposing to shorten the time frame for issuing preliminary statements under our draft rule. This would ensure that AEMO has sufficient time to undertake data validation and exceptions analysis after receiving metering data, and before issuing preliminary statements. We consider that our more preferable rule would support a more efficient settlement cycle that delivers beneficial outcomes for consumers and supports innovation, that is also implementable noting AEMO's operational requirements.

2.3.2 Improving outcomes for consumers

We consider that our more preferable draft rule to shorten the NEM settlement cycle would have material positive impacts for consumers. Shortening the NEM settlement cycle would reduce working capital requirements for market participants. We consider that these benefits would have a particularly material impact for smaller retailers, which generally have higher financing costs.

Lowering working capital requirements would allow participants (particularly smaller retailers) to invest further in innovation and expanding service offerings, the benefits of which would ultimately flow through to consumers.

We also note that reducing working capital requirements would lower barriers to entry for the electricity retail market, which would increase competition to deliver more choice and better outcomes for consumers. We note the critical importance of smaller retailers in driving competitive outcomes for consumers in the retail electricity market. We also note that after years of growth, market competition has plateaued in recent years. This has been compounded by a high number of retailer exits in 2022 and 2023, and a lack of new market entrants. We therefore consider that measures to support increase retail competition are critical in ensuring ongoing competitive outcomes for consumers.

2.3.3 Driving market efficiency

We consider that our more draft preferable rule to shorten the NEM settlement cycle would support overall market efficiency. We note that the 20-business day NEM settlement cycle was developed during a period where the vast majority of meters were manually read accumulation meters, and does not reflect the most efficient approach to settlement in an environment with a higher penetration of remotely read interval meters. We also consider faster settlement will support a more efficient use of market participant working capital, which would otherwise be held as credit support with AEMO, or capital to respond to the risk of Call Notices from AEMO.

2.3.4 Supporting innovation and flexibility

A shorter settlement cycle would support innovation and flexibility. Reducing the impact of the prudential regime on market participants would allow for increased productive investment, such as investment innovative service offerings. Faster settlement of both the NEM and OTC contracts would assist market participants with cash flow, and support increased investment flexibility.

As noted in 2.3.1, we also consider that a shorter settlement cycle would reduce barriers to entry and support competition. We consider that a more competitive retail electricity market is more likely to incentivise and drive innovation, as market entrants and incumbents compete for customers.

2.3.5 Considering implementation matters

We consider that our more preferable rule to shorten the NEM settlement cycle can be implemented successfully by both market participants that settle on the NEM, and AEMO as the entity responsible for running market settlement. We note that market participants currently already settle on a weekly basis with AEMO. Shortening the settlement cycle would not increase the frequency of settlement. Further information from AEMO following the draft determination in its High Level Implementation Assessment (HLIA) (particularly implementation cost information) will be important in informing our final determination.

3 How our rule would operate

We have made a draft rule to shorten the settlement cycle to 11 business days following the end of a trading week. This chapter outlines:

- our more preferable draft rule to shorten the settlement cycle to 11 business days, and how this position was informed by stakeholder feedback and supplementary analysis from AEMO
- the impacts that a shorter settlement cycle would have on prudential requirements and relevant financial contracts, and the corresponding benefits for market participants, consumers, and the broader electricity retail market
- our view on the importance of future cost information in informing our position for the final determination.

3.1 Our draft rule would shorten the NEM settlement cycle to 11 business days

3.1.1 We received feedback on the proponent's proposal to move to a 10 business day settlement cycle

There is currently a 20-business day settlement cycle following the end of a trading week

Under the NER, there is currently a 20-business day settlement process from the end of a 7-day billing period to the final payment date, when AEMO and market participants settle all transactions for the relevant billing period.[17]

There is a further revisions process at 20 weeks following the end of a billing period (R1), and a second revisions process at 30 weeks (R2). These revisions processes pick up actual meter reads from manually read accumulation meters, and allow for customer transfers to be captured and allocated to the correct retailers.[18]

The proponent considers that there would be material benefits to shortening the NEM settlement cycle to 10 business days

The proponent's rule change request seeks to reduce the NEM settlement cycle to 10 business days following the end of a billing period. The proponent's view is that shortening the NEM settlement cycle to 10 business days would reduce costs for market participants by:

- lowering the quantum of credit support that market participants must lodge with AEMO as part of the prudential regime[19]
- reducing the impact of Call Notices from AEMO by shortening the settlement cycle for relevant financial contracts.

The proponent considers that lowering working capital requirements would be particularly beneficial for smaller retailers which typically have a higher financing costs and less access to capital. This would allow smaller retailers to invest in innovative new services and expand their offerings to customers, as well as reduce barriers to entry in the retail electricity market. This in turn would increase competition, give consumers more choice, and support more competitive pressure on prices.

17 Further information regarding the current 20 business day settlement process can be found in section 2.1 of the consultation paper.

18 As noted in AEMO's NEM Settlement Procedures (2019, p. 6), it is not practical for all metering data to be provided and any inaccuracies identified and remedied by the time the Final Statement is issued. This is due to meter reading frequencies, the large amount of metering data to be processed, and because discrepancies, when discovered, may have been affecting results for more than a month. Estimated values are used to prepare final statements pending the availability of the actual readings from these meters. The revisions process provides an opportunity to address inaccuracies in the final statements.

19 Further information explaining the link between the prudential regime and the length of the settlement cycle can be found in section 2.2 of the consultation paper.

We received feedback from stakeholders regarding the proponent's proposed 10-business day settlement cycle

In response to the consultation paper some stakeholders agreed that the 20-business day settlement cycle is unnecessarily long and no longer fit for purpose, noting the growing prevalence of smart meter technology and improving data accuracy. They considered that reform to the settlement cycle is logical in the context of changing market and technological conditions, and would increase overall market efficiency. [20]

Others considered that the current 20-business day settlement cycle exposes generators to credit risk, and that shortening the settlement cycle would reduce risk in the NEM.[21]Alinta noted that for generators participating in financial markets such as futures, any delay in settlement of the physical market (i.e. the NEM) creates a gap between the settlement of the relevant financial market and the settlement of the physical. This gap must be financed by the business in the interim and causes similar costs to generators as the prudential regime does on retailers. [22]

Some stakeholders stated that the 10-business day settlement cycle proposed by the proponent was appropriate, considered that it would facilitate a balance between realising positive benefits and potential negative impacts (such as reduced data quality and IT costs), and considered that it would not be onerous for relevant parties to implement.[23]. Alinta suggested that the settlement cycle should be as short as is feasibly possible without materially impacting the quality of settlement data. [24]

Other stakeholders considered that whilst the 20-business day settlement cycle could be improved, the Commission should consider and analyse a range of options related to the settlement cycle other than the proponent's proposal that might also benefit consumers. [25] Some stakeholders noted that a shorter settlement cycle could impact settlement data accuracy, and considered that further information on likely impacts was important in considering relative costs and benefits.[26] Some stakeholders considered that impacts to data quality would likely result in larger variances at the R1 and R2 revisions processes which could impact market participants' accounting and cash flow, but expected that the impact of any upwards and downwards revisions would even out over time.[27]

Other stakeholders did not provide feedback specifically on the proposed 10-business day settlement cycle, questioned more generally whether the proponent's stated benefits were likely to be achieved in practice, and considered that further information was required in order to assess the optimal settlement cycle.[28] These comments are outlined in more detail in section 3.2.1 of this draft determination.

20 Submissions to the consultation paper: ZEN Energy, ENGIE.
21 Submissions to the consultation paper: BlueNRG, ENGIE.
22 Submissions to the consultation paper: Alinta.
23 Submissions to the consultation paper: ENGIE, ZEN, BluNRG.
24 Submissions to the consultation paper: Alinta.
25 Submissions to the consultation paper: Shell, AEC.
26 Submissions to the consultation paper: EnergyAustralia, AGL, Alinta, AEC, ENGIE.
27 Submissions to the consultation paper: ENGIE.
28 Submissions to the consultation paper: Shell, EnergyAustralia, Origin Energy.

AEMO undertook further analysis regarding impacts to data accuracy of a 10-business day settlement cycle

In addition to its formal response to the consultation paper, AEMO has also undertaken further analysis regarding the potential metering data accuracy impacts of a 10-business day settlement cycle.

In preparing both preliminary and final statements, AEMO undertakes a range of metering data analysis and validation activities to work through any errors, or 'exceptions'. AEMO has estimated its statement processing times based on current rule and meter data requirements as:

- **Preliminary statements** - approximately 3 business days
- **Final statements** - approximately 4 business days[29]

AEMO analysis shows that under the current 20 business day settlement cycle, the greatest variance in metering data for most jurisdictions occurs between when final statements are issued (at 18 business days following the end of the settlement cycle), and when the first revisions (R1) process occurs (at 20 weeks following the end of a billing period).[30]This primarily reflects the receipt of actual meter reads from manually read accumulation meters. We note that energy variance between settlement stages is more variable in Victoria due to its high penetration of smart meters. [31]

AEMO undertook historical analysis of energy variance (expressed in MWh) for individual market participants between settlement stages. This analysis shows that under the current 20-business day settlement cycle, the current energy variance between settlement statement runs for a given market participant generally sits at less than 1 per cent of the participant's energy statement amounts.

AEMO notes that compressing the settlement cycle as proposed by the proponent would reduce time available to identify and resolve exceptions. Under a 10-business day settlement cycle, the variance between a participant's final and R1 statements could be estimated as the current energy variance between their preliminary and R1 statements. AEMO analysis shows that using this estimate, the percentage of participant statements with a less than 1 per cent energy variation between final statement and R1 reduces to approximately 82 per cent of all participant statements. This is a reduction from approximately 86 per cent of participant statements under the current settlement cycle. [32]

AEMO notes that from an operational perspective, under the proponent's proposal, preliminary statements and final statements would be issued on the same day of the week. Running two sets of statements on the same day of the week is likely to put operational constraints on the AEMO settlements team and systems. AEMO also notes that under current arrangements, AEMO receives metering data from Metering Data Providers (MDPs) by the second business day following the end of a billing period. Under the proponent's proposed settlement cycle, AEMO would be required to issue preliminary statements on the third business day following the end of a billing period. This would not allow AEMO enough time to identify and correct exceptions prior to issuing preliminary statements.[33]

29 AEMO supplementary analysis, p. 5.

30 AEMO supplementary analysis, p. 9-10.

31 AEMO supplementary analysis, p. 11.

32 AEMO supplementary analysis.

33 AEMO supplementary analysis.

3.1.2 Our more preferable draft rule would shorten the settlement cycle to 11 business days

Following consideration of stakeholder feedback to the draft determination and further supporting analysis from AEMO, we have made a more preferable draft rule to shorten the NEM settlement cycle to 11 business days following the end of a trading week.

Table 3.1 below compares our draft rule to current arrangements (a 20-business day settlement cycle), and the proponent's proposal (a 10-business day settlement cycle).

Table 3.1: Proposed changes to the settlement cycle in the NER

Subject	Current arrangements	Rule change request	Changes proposed under the draft determination
Preliminary statements (clause 3.15.14 of the NER)	AEMO must give each market participant a preliminary statement within **5 business days** after the end of each billing period	AEMO must give each market participant a preliminary statement within 3 **business days** after the end of each billing period	AEMO must give each market participant a preliminary statement within **5 business days** after the end of each billing period
Final statements (clause 3.15.15 of the NER)	AEMO must give each market participant a final statement no later than **18 business days** after the end of each billing period	AEMO must give each market participant a final statement no later than **8 business days** after the end of each billing period	AEMO must give each market participant a final statement no later than **9 business days** after the end of each billing period
Disputes (clause 3.15.18 of the NER)	In the event of a dispute between a market participant and AEMO concerning either the net amount payable stated in the preliminary statement or any supporting data, parties must use reasonable endeavours to resolve the dispute within **15 business days** of the end of the relevant billing period	In the event of a dispute between a market participant and AEMO concerning either the net amount payable stated in the preliminary statement or any supporting data, parties must use reasonable endeavours to resolve the dispute within **7 business days** of the end of the relevant billing period	In the event of a dispute between a market participant and AEMO concerning either the net amount payable stated in the preliminary statement or any supporting data, parties must use reasonable endeavours to resolve the dispute within **7 business days** of the end of the relevant billing period
Payment date (Chapter 10, Glossary)	The payment date is the **20th business day** after the end of a billing period, or 2 business days after receiving a final statement, whichever is the later.	The payment date is the **10th business day** after the end of a billing period, or 2 business days after receiving a final statement, whichever is the later.	The payment date is the **11th business day** after the end of a billing period, or 2 business days after receiving a final statement, whichever is the later.
Payments by market participants	On each payment date and in accordance with the timetable, each	No change proposed	No change proposed

Subject	Current arrangements	Rule change request	Changes proposed under the draft determination
(clause 5.15.15 of the NER)	market participant must pay AEMO in cleared funds the net amount payable per the final statement		
Payment to market participants (clause 3.15.17 of the NER)	On the **day on which AEMO is to be paid under clause 3.15.16,** AEMO must pay each market participant in cleared funds the net amount payable to the market participant as per the relevant statement given to it under clause 3.15.15	On the **payment date**, AEMO must pay each market participant in cleared funds the net amount payable to the market participant as per the relevant statement given to it under clause 3.15.15	On the **payment date**, AEMO must pay each market participant in cleared funds the net amount payable to the market participant as per the relevant statement given to it under clause 3.15.15

Source: NER (Chapter 3, Chapter 10), rule change request submitted by GloBird

We consider that an 11-business day settlement cycle would realise the benefits of a shortened settlement cycle and address process risks identified by AEMO

We have made several changes to the proponent's proposed rule change, which we consider would help address matters raised by AEMO, whilst still realising the benefits of a shorter settlement cycle:

- **Our draft rule would not shorten the time frame for AEMO to issue preliminary statements** - Under current arrangements, MDPs must pass validated metering data to AEMO by the second business day after the end of the billing period. Under the proponent's rule change request, AEMO would be required to issue preliminary statements within 3 business days after the end of the billing period. This would not give AEMO the time necessary to undertake any data analysis (such as identifying and resolving exceptions) between when it receives the data and when it must issue preliminary statements. Accordingly, our draft rule retains the current 5 business day timeframe for AEMO to issue preliminary statements. This would allow 3 business days for AEMO to undertake its exceptions review process for preliminary statements, consistent with its current estimated timing.[34]
- **Final statements would be issued 9 business days following the end of a billing period** - Under the proponent's rule change request, final statements would be issued 8 business days following the end of a billing period. Under our draft determination final statements would be issued 9 business days following the end of a billing period. This would allow AEMO to retain the current time frame for processing preliminary statements, as well as allow for a 4-day process between when preliminary and final statements are issued.
- **Preliminary statements and final statements would not be issued on the same day of the week** - Under the proponent's rule change request, preliminary statements would be issued at 3 business days and final statements would be issued at 8 business days following the end of

34 AEMO supplementary analysis.

a billing period. This means that in a standard settlement week with no public holidays, preliminary and final statements would be issued on the same day of the week. We note that this would likely place resourcing and system constraints on the AEMO team responsible for settlements. Under our draft rule, preliminary and final statements would not be issued on the same day of the week.[35]

3.1.3 There would be an 18-month implementation period

Under our draft rule, there would be an 18-month implementation period following the publication of the final determination. This means the 11-business day settlement cycle would commence on the first day of the first billing period after 30 April 2026. The specific date will be included in the final rule**.**

In response to the consultation paper, some stakeholders noted that they would support a 12-month implementation period. ENGIE considered that a 12-month implementation period would allow market participants to adequately prepare for a change in the settlement cycle.[36] AFMA advised that whilst it is confident that the AFMA Electricity Addendum could support a shorter NEM settlement cycle, it considers that there should be a 12-month transition period to allow market participants to work through the commercial implications of such a change.[37]

We consider that an 18-month implementation period is appropriate, noting that AEMO would be required to consult on and update a range of procedures. We also consider that an 18-month implementation period is sufficient for industry readiness.

3.1.4 AEMO would be required to update a number of relevant procedures and guidelines

AEMO would need to review and update a range of procedures, policies, and guides to account for this rule change. Some key documents that may require amendment include:

- Credit Limit Procedures (rule 3.3)
- NEM Settlement Estimates and Revisions Policies (rule 3.15)
- Service Level Procedures (rule 7.16)
- Metrology Procedures (rule 7.16).

The implications of these changes are explored further in section 3.2 of this draft determination.

3.2 Shortening the settlement cycle would deliver a range of beneficial outcomes

We consider that our more preferable draft rule to shorten the NEM settlement cycle to 11 business days would have a range of associated beneficial impacts. This section outlines:

- the impact that a shorter NEM settlement cycle would have on prudential requirements, and the associated benefits for market participants
- the impact that a shorter NEM settlement cycle would have on relevant financial contracts, and the associated benefits for market participants
- the broader benefits that a shorter settlement cycle would have for consumers, and the resilience, stability, and competitiveness of the electricity retail market.

35 Noting that there may be exceptions in non-standard weeks that include public holidays.

36 Submission to the consultation paper: ENGIE.

37 Submission to the consultation paper: AFMA.

3.2.1 An 11-business day settlement cycle would lower prudential costs for market participants

Shortening the settlement cycle would reduce the impact of prudential requirements for market participants

A key outcome of shortening the NEM settlement cycle is the impact on prudential requirements for market participants. Each market participant must lodge credit support with AEMO equivalent to its MCL. The length of the settlement cycle is a direct input into AEMO's calculation of each market participant's MCL, under AEMO's Credit Limit Procedures. The MCL is comprised of:

- **The Outstandings Limit (OSL) -** the OSL is based on a 7-day billing period and an estimated 28-day (20 business day) settlement period. Accordingly, the OSL time period is 35 days
- **The Prudential Margin (PM)** - the PM is 7 days

Therefore, **MCL = OSL + PM**

Reducing the length of the NEM settlement cycle would reduce the calculation of the Outstandings Limit (OSL) from 35 days to 21 days. This in turn would reduce the quantum of credit support that market participants must lodge with AEMO, and free up working capital.

We received stakeholder feedback regarding the impact that a shorter settlement cycle could have on the prudential regime

In response to the consultation paper, some stakeholders noted the importance of the prudential regime in supporting the integrity of the NEM. They considered that it would be important to assess the risks of making any changes to prudential requirements such as AEMO's ability to achieve the prudential standard of 2 per cent. [38]

In its submission to the consultation paper, AEMO noted that whilst the statistical modelling underpinning the prudential standard would need to be updated to account for a shorter settlement cycle, it did not consider that a change to the settlement cycle itself would impact the ability to achieve the prudential standard. [39] AEMO also noted that from a whole of NEM perspective, credit support levels are at their highest level since 2011, which has been primarily driven by higher prices and price volatility. Reducing the settlement cycle is likely to reduce the overall value of prudential risk in the NEM via smaller accumulation of outstanding amounts. [40]

Some stakeholders considered that shortening the settlement cycle and therefore lowering prudential requirements would have material benefits, and lower working capital costs for market participants. They considered that the current length of the settlement cycle and prudential requirements are an important issue for smaller retailers, and note that access to reallocations for smaller retailers is far more constrained than it has been previously. They also note that larger retailers with generation may not face the same issues regarding the settlement cycle and prudential regime. [41]

Other stakeholders considered that whilst in principle a shorter settlement cycle may reduce the quantum of the MCL, this would be contingent on how AEMO approaches key calculation inputs in its revised Credit Limit Procedures. [42] For example, AEMO multiplies each market participant's MCL by a volatility factor. Under a shorter settlement cycle the volatility factor could increase as it is calculated over a shorter number of days. This is reflected in preliminary AEMO analysis which

38 Submissions to the consultation paper: Origin, AGL, Shell.

39 Submission to the consultation paper: AEMO.

40 Submissions to the consultation paper: AEMO.

41 Submissions to the consultation paper: BlueNRG, ZEN Energy.

42 Submissions to the consultation paper: Origin Energy, EnergyAustralia, Shell, AGL.

estimates the scale of MCL reductions to be in the vicinity of 10 to 20 per cent (compared to the estimated 40 per cent described in the rule change request). Noting that the total MCL over 2023 was $1.4 billion, under AEMO's preliminary analysis estimated credit support reductions from MCL requirements equate to $140 million to $280 million. [43]

We consider that there are still material benefits for market participants, particularly smaller retailers

We consider that there would still be material benefits to market participants (particularly smaller retailers) from shortening the settlement cycle and therefore reducing the quantum of the MCL, even if a higher volatility factor means that the scale of the benefits is lower than those identified in the proponent's rule change request. We note that smaller retailers generally have a higher cost of finance relative to larger retailers (increasing the comparative cost of lodging prudentials with AEMO), as well a higher opportunity cost for their working capital. This means that the scale of benefits would be more significant for these market participants.

We also note that smaller and non-vertically integrated retailers face different costs, risks, and challenges to other market participants in managing cash flow and working capital. For example, reallocation instruments are commonly used by market participants to manage their net position with AEMO, and respond to Call Notices. The vast majority (more than 80 per cent) of reallocations in the NEM are intra-company reallocations (for example, within a vertically integrated 'gentailer'), where typically larger participants transfer liability between their corporate entities.[44]

For smaller retailers, reallocations may be more difficult or costly to access, meaning that they are more likely to need to hold additional working capital to manage their position with AEMO and promptly respond to Call Notices.

We explore the broader implications of these benefits for consumers, competition, and retail market stability in section 3.2.3 below.

3.2.2 An 11-business day NEM settlement cycle would flow through to the settlement of certain financial contracts

Shortening the NEM settlement cycle would flow through to the settlement of relevant OTC hedge contracts, which may impact how market participants manage the risk of Call Notices

When a participant's outstandings with AEMO exceeds its trading limit (TL), AEMO can issue a Call Notice that the market participant must respond to by 11am the following business day. Call Notices are often larger and occur more frequently during periods of high price volatility.

Market participants often use hedge contracts to manage their exposure to wholesale price volatility in the NEM, such as OTC contracts. OTC contracts using the ISDA Master Agreement have been standardised, so that settlement for these contracts occurs on the same day as settlement of the NEM (i.e. following the current 20 business day settlement cycle).

Under the 20-business day settlement cycle, there may be a significant time lag between when a market participant is issued a Call Notice, and when OTC contracts are settled. This means that participants must fund Call Notices from existing financial resources without the benefit of any offsetting difference payments from their hedging contracts. Noting the significant consequences of failing to promptly respond to a Call Notice (market suspension), prudent market participants

43 Stakeholder submissions to the consultation paper: AEMO.

44 Submissions to the consultation paper: AEMO.

may take the precaution of holding additional working capital so they can quickly respond to any Call Notices over the settlement cycle.

Under our draft rule, shortening the NEM settlement cycle to 11 business days would flow through to the settlement of relevant OTC hedge contracts. This would benefit market participants through faster access to offsetting difference payments, and means that market participants would need to hold less working capital to cover the risk of Call Notices from AEMO.

We received stakeholder feedback regarding the impact of a shorter settlement cycle on relevant financial contracts

In its response to the consultation paper, AFMA noted that the current NEM settlement cycle is relatively long by financial market standards, where contracts typically settle between one to five business days. AFMA advised that OTC derivatives are typically traded under the AFMA Electricity Addendum, with settlement occurring on the same day as NEM settlement under the NER. AFMA notes that the Electricity Addendum is designed to accommodate market participants' preference to have all market payments occur on the same day, and does not anticipate that parties that use AFMA's recommended settlement clauses would need to modify their agreements to accommodate a shorter settlement cycle, as the timeline is determined by reference to the NER.[45]

Some stakeholders noted that although shortening the NEM settlement cycle would shorten the settlement cycle for OTC hedge contracts, it would have no impact on how ASX contracts are settled. [46]

We consider that there would be material benefits due to the impact on relevant financial contracts, particularly for smaller retailers

We consider that shortening the NEM settlement cycle to 11 business days would benefit market participants through faster settlement of OTC hedge contracts. We also note that most small retailers still cannot access the ASX, and are therefore more likely to meet their minimum risk management needs through the OTC hedge market. [47]

It is therefore possible that smaller retailers may benefit more significantly from this change.

We also note that shortening the financial contract settlement cycle would further decrease the credit risk that exists between financial contract parties. This would potentially lower the credit risk component of contract prices, ultimately reducing costs to consumers.

We explore the broader implications of these benefits for consumers, competition, and retail market stability in section 3.2.3 below.

3.2.3 An 11-business day NEM settlement cycle would have broader positive benefits for consumers and the electricity retail market

We consider that the benefits described in sections 3.3.1 and 3.3.2 for market participants, would ultimately support beneficial outcomes for both consumers, as well as the broader stability and resilience of the electricity retail market.

Consumers would ultimately benefit from a shorter settlement cycle

Where smaller retailers are required to hold less working capital as part of the prudential regime, they are able to redirect this capital to invest in growing innovative service offerings for

45 Submissions to the consultation paper: AFMA.

46 Submissions to the consultation paper: AEC, AFMA .

47 ACCC, Electricity Market Inquiry Report (2023).

consumers. Reducing working capital requirements would also lower barriers to entry into the retail electricity market, increasing competition. Consumers therefore would benefit from more choice, and more competitive pressure on offers and prices.

Small retailers play an important role in ensuring a robust and competitive retail electricity market

We note the critical role that smaller retailers in particular play in driving value for consumers in the retail electricity market. The ACCC's 2023 Electricity Market Inquiry Report notes that small standalone retailers and new entrants play an important role in the market, with their best offers generally competitive with the best market offers from larger retailers.[48]

Lowering barriers to entry and driving competition is critical in driving better value 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 ACCC notes that the competitive threat new entrants pose for incumbent participants may improve value for consumers and incentivise innovation. [49] The ACCC also notes it is critical that the conditions for competition are supported throughout the energy transition.

We consider that measures to lower working capital requirements and reduce barriers to entry are particularly important in the current context, where retail market competition has plateaued in recent years after several decades of growth. This has been compounded by a high number of retailer exits during the energy crisis in 2022 and 2023, and no new retailer entrants.[50]

Finally, we also note that smaller and standalone retailers may face different costs, risks, and challenges to other market participants. For example, smaller retailers are often unable to access the ASX, putting pressure on how they manage wholesale price risks and execute their hedging strategies. Smaller retailers also struggle to access reallocations, particularly compared to vertically-integrated market participants. This means that they may have to hold additional working capital to manage the risk of Call Notices from AEMO, which has an associated opportunity cost.

3.3 Further information regarding costs will inform the final determination

We consider that further information regarding implementation costs of shortening the settlement cycle will be an important input in informing our position in the final determination. This section outlines:

- feedback we received regarding implementation costs in response to the consultation paper
- our view on the importance of more detailed cost information (particularly from AEMO) in informing a final determination

3.3.1 We did not receive detailed feedback regarding implementation costs for individual market participants

As outlined in Chapter 1 of this draft determination, in our consultation paper we asked stakeholders about their views of the likely implementation costs associated with shortening the settlement cycle. We did not receive any detailed stakeholder feedback regarding implementation costs for individual market participants that settle with AEMO. ENGIE noted that it expected some

48 ACCC, Electricity Market Inquiry Report (2023).

49 ACCC, Electricity Market Inquiry Report, 2023, p. 22.

50 ACCC, Electricity Market Inquiry Report (2023), p. 16, 22.

manageable implementation costs related to IT system upgrades, but did not expect such costs would be significant for individual entities. ZEN Energy anticipated that costs would be minimal.[51]

The Commission notes that market participants currently already settle on a weekly basis with AEMO. A shorter settlement cycle would reduce the time between a given billing period and the time at which that billing period is settled, but does not increase the frequency of settlement itself. As such, at this stage and based on current available evidence, we do not consider it is likely that these implementation costs for individual market participants would be significant.

3.3.2 AEMO will undertake a cost assessment following publication of the draft determination which will inform our final determination

In our consultation paper we also noted that shortening the settlement cycle would likely have implementation costs for AEMO, as the entity responsible for running the NEM settlement process. Some stakeholders noted that a shortened settlement cycle could impose additional implementation costs on AEMO, including system upgrade costs, and increased staffing resources on an ongoing basis to manage shorter time periods between each stage of the settlement process.[52] Stakeholders considered that a more detailed understanding of such costs was important in assessing the relative costs and benefits of a shorter settlement cycle.[53]

AEMO did not undertake a cost assessment as part of its submission to the consultation paper. AEMO has instead notified us that it would only complete a 'High Level Implementation Assessment' (HLIA) after the release of a draft determination. We note that some stakeholders suggested a Directions Paper might be helpful in eliciting more information from stakeholders on the proposal. However, given AEMO will only provide the HLIA following the draft determination, we consider that a directions paper will not provide any additional benefit for this rule change process.

Once completed, the HLIA is available to the Commission and industry to inform stakeholder positions on the final determination. The HLIA includes cost assessments, as well as systems and procedure analysis, and implementation timing assessments.

We consider that this information, particularly the cost assessment, will be a critical input in informing our position in the final determination, and assessing whether the benefits of a shorter settlement cycle (noted in this draft determination) outweigh the associated costs.

51 Submissions to the consultation paper: ENGIE, ZEN Energy.

52 Submissions to the consultation paper: ENGIE, Shell, AEMO.

53 Submissions to the consultation paper: AGL, Shell.

A Rule making process

A standard rule change request includes the following stages:

- a proponent submits a rule change request
- the Commission initiates the rule change process by publishing a consultation paper and seeking stakeholder feedback
- stakeholders lodge submissions on the consultation paper and engage through other channels to make their views known to the AEMC project team
- the Commission publishes a draft determination and draft rule
  - stakeholders lodge submissions on the draft determination and engage through other channels to make their views known to the AEMC project team
- the Commission publishes a final determination and final rule.

You can find more information on the rule change process on our website.[54]

A.1 The proponent proposed a rule change to shorten the NEM settlement cycle

The proponent has proposed changes to the NER so that AEMO and market participants settle faster following the end of each billing period. Under the proponent's proposed rule change the settlement cycle would take place over 10 business days following the end of a billing period, rather than 20 business days as is current practice.

A.2 The proposal addressed concerns regarding the current length of the settlement cycle, and the corresponding impact of the prudential regime

The proposal addressed concerns regarding the length of the settlement cycle. The proponent considers that the current length of the NEM settlement cycle may have unintended adverse impacts on retailers (particularly smaller retailers), and therefore consumers.

The proponent considered that the length of the settlement cycle may increase the impact of prudential requirements on market participants. Under AEMO's Credit Limit Procedures, market participants must lodge credit support with AEMO equivalent to each participant's Maximum Credit Limit (MCL). The length of the settlement cycle is a direct input into the MCL, such that a longer settlement cycle increases the quantum of the MCL. The proponent considered that there is an opportunity cost to lodging this credit support, the cost of maintaining this credit support may be higher for smaller market participants, and that these credit support requirements may act as a barrier to market entry. This negatively impacts competition and consumers.

The proponent also considered that the length of the settlement cycle may impact how market participants respond to the risk of Call Notices from AEMO. The settlement of OTC hedge products is linked to the NEM settlement cycle. Under the current 20-business day NEM settlement cycle, there may often be a significant time lag between when market participants must respond to a Call Notice from AEMO, and when they receive the benefit of offsetting difference payments from their hedge contracts. This means that prudent market participants

54 See our website for more information on the rule change process: https://www.aemc.gov.au/our-work/changing-energy-rules.

may often be required to hold additional working capital to respond to AEMO Call Notices during the settlement cycle.

A.3 It proposed to do so by shortening the settlement cycle to 10 business days

The proponent made a rule change request to shorten the NEM settlement cycle to 10 business days following the end of a billing period. The proponent considered that shortening the settlement cycle will reduce the costs of the prudential regime imposed on market participants by:

1. lowering credit support requirements for market participants
2. reducing the impact of Call Notices from AEMO, by shortening the settlement of OTC hedge contracts.

A.4 The process to date

On 22 February 2024, the Commission published a notice advising of the initiation of the rule making process and consultation in respect of the rule change request.[55]

A consultation paper identifying specific issues for consultation was also published. Submissions closed on 4 April 2024. The Commission received 11 submissions as part of the first round of consultation. The Commission considered all issues raised by stakeholders in submissions. Issues raised in submissions are discussed and responded to throughout this draft rule determination.

On 30 May 2024 we published a notice of an 8-week extension for the draft determination. This moved the date for the draft determination from 13 June 2024 to 8 August 2024.

55 This notice was published under section 95 of the NEL.

B Regulatory impact analysis

The Commission has undertaken regulatory impact analysis to make its draft determination.

B.1 Our regulatory impact analysis methodology

Our regulatory impact analysis was informed by stakeholder submissions to the consultation paper, as well as supplementary analysis from AEMO regarding the settlement process and data accuracy impacts.

The Commission has designed its draft rule to ensure the NEM settlement cycle operates effectively, whilst minimising unnecessary costs to market participants. The draft rule would:

- support a more efficient settlement process that reflects the current technological environment
- lower the costs of the prudential regime for market participants and the overall quantum of credit risk in the NEM, without impacting AEMO's ability to achieve the prudential standard of 2 per cent
- lower barriers to electricity retail market entry, increasing competition and supporting more choice and competitive pricing for consumers
- allow for a more efficient allocation of market participant capital, supporting increased retailer investment in innovative service offerings for consumers.

The Commission notes that a shorter settlement cycle will likely increase metering data variances at each stage of the settlement cycle process. However, based on historical analysis provided by AEMO, we consider it likely that the majority of variances will be less than 1 per cent of a participant's total statement. We also note that data variances already exist at every stage of the settlement process, and are currently resolved through the first and second revisions processes. Ultimately, we consider the best interests of consumers will be met through achieving the benefits of a shorter settlement cycle, including more choice, and competition, as well as increased market efficiency, flexibility, and innovation.

C Legal requirements to make a rule

This appendix sets out the relevant legal requirements under the NEL for the Commission to make a draft rule determination.

C.1 Draft rule determination and draft rule

In accordance with sections 91A and 99 of the NEL, the Commission has made this draft rule determination for a more preferable draft rule in relation to the rule proposed by the proponent.

The Commission's reasons for making this draft rule determination are set out in chapters 2 and 3.

A copy of the more preferable draft rule is attached to and published with this draft determination. Its key features are described in chapter 3.

C.2 Power to make the rule

The Commission is satisfied that the more preferable draft rule falls within the subject matter about which the Commission may make rules.

The more preferable draft rule falls within section 34 of the NEL as it relates to regulating the operation of the national electricity market and the activities of persons participating in the national electricity market (s 34(1)(a)).

It also falls within the matters set out in Schedule 1 of the NEL as it relates to the payment of money for:

- the settlement of transactions for electricity or services purchased or supplied through the wholesale exchange operated and administered by AEMO; and
- any service provided under the Rules in respect of which the Rules require payment (item 34).

C.3 Commission's considerations

In assessing the rule change request the Commission considered:

- its powers under the NEL to make the draft rule
- the rule change request
- submissions received during first round consultation
- the Commission's analysis as to the ways in which the draft rule will or is likely to contribute to the achievement of the NEO
- the application of the draft rule to the Northern Territory.

There is no relevant Ministerial Council on Energy (MCE) statement of policy principles for this rule change request.[56]

56 Under s. 33 of the NEL and s. 73 of the NGL the AEMC must have regard to any relevant MCE statement of policy principles in making a rule. The MCE is referenced in the AEMC's governing legislation and is a legally enduring body comprising the Federal, State and Territory Ministers responsible for energy. On 1 July 2011, the MCE was amalgamated with the Ministerial Council on Mineral and Petroleum Resources. In December 2013, it became known as the Council of Australian Government (COAG) Energy Council. In May 2020, the Energy National Cabinet Reform Committee and the Energy Ministers' Meeting were established to replace the former COAG Energy Council.

C.4 Making electricity rules in the Northern Territory

The NER, as amended from time to time, apply in the Northern Territory, subject to modifications set out in regulations made under the Northern Territory legislation adopting the NEL.[57] Under those regulations, only certain parts of the NER have been adopted in the Northern Territory.

As the more preferable draft rule relates to parts of the NER that apply in the Northern Territory, the Commission is required to assess Northern Territory application issues, described below.

Test for scope of "national electricity system" in the NEO

Under the NT Act, the Commission must regard the reference in the NEO to the "national electricity system" as a reference to whichever of the following the Commission considers appropriate in the circumstances having regard to the nature, scope or operation of the proposed rule:[58]

1. the national electricity system
2. one or more, or all, of the local electricity systems[59]
3. all of the electricity systems referred to above.

Test for differential rule

Under the NT Act, the Commission may make a differential rule if it is satisfied that, having regard to any relevant MCE statement of policy principles, a differential rule will, or is likely to, better contribute to the achievement of the NEO than a uniform rule.[60] A differential rule is a rule that:

- varies in its term as between:
  - the national electricity systems, and
  - one or more, or all, of the local electricity systems, or
- does not have effect with respect to one or more of those systems

but is not a jurisdictional derogation, participant derogation or rule that has effect with respect to an adoptive jurisdiction for the purpose of s. 91(8) of the NEL.

A uniform rule is a rule that does not vary in its terms between the national electricity system and one or more, or all, of the local electricity systems, and has effect with respect to all of those systems.[61]

The Commission's draft determinations in relation to the meaning of the "national electricity system" and whether to make a uniform or differential rule are set out in chapter 2.

57 These regulations under the NT Act are the National Electricity (Northern Territory) (National Uniform Legislation) (Modifications) Regulations 2016

58 Clause 14A of Schedule 1 to the NT Act, inserting section 88(2a) into the NEL as it applies in the Northern Territory.

59 These are specified Northern Territory systems, listed in schedule 2 of the NT Act.

60 Clause 14B of Schedule 1 to the NT Act, inserting section 88AA into the NEL as it applies in the Northern Territory.

61 Clause 14 of Schedule 1 to the NT Act, inserting the definitions of "differential Rule" and "uniform Rule" into section 87 of the NEL as it applies in the Northern Territory.

Abbreviations and defined terms

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
CLP	Credit Limit Procedures
Commission	See AEMC
ISDA	International Swaps and Derivatives Association
MCL	Maximum Credit Limit
NEL	National Electricity Law
NEO	National Electricity Objective
NER	National Electricity Rules
OSL	Outstandings Limit
OTC	Over the Counter
Proponent	The individual / organisation who submitted the rule change request to the Commission
RoLR	Retailer of Last Resort
TL	Trading Limit