INFORMATION

Shortening the settlement cycle

We are seeking stakeholder feedback on a proposed rule change to shorten the settlement cycle

On 6 December 2023, the Australian Energy Market Commission (AEMC) received a rule change request from GloBird Energy Pty Ltd (the proponent). The proponent is seeking 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.

The AEMC has published a consultation paper regarding this rule change proposal, and is seeking submissions from stakeholders by 4 April 2024.

Shortening the settlement cycle may lower costs for market participants and improve outcomes for customers

The national electricity market (NEM) currently has 20 business day settlement process from the end of a billing period to the final payment date, where the Australian Energy Market Operator (AEMO) and market participants settle all transactions for the relevant billing period.

This 20 business day settlement cycle includes time frames for issuing preliminary statements, issuing final statements, and settling any disputes relating to the preliminary statement or its supporting data.

The proponent states that changing the rules to shorten the settlement cycle to 10 business days may reduce the costs of the prudential regime imposed on market participants by:

1. **Lowering credit support requirements for market participants**: Each market participant must lodge credit support with AEMO which is at least equal to its Maximum Credit Limit (MCL). The MCL factors in the length of the settlement cycle, to reduce the risk of loss if a market participant defaults at the end of a settlement period. Therefore, a shorter settlement cycle would lower the quantum of credit support participants must lodge with AEMO.
2. **Reducing the impact of Call Notices from AEMO:** Call Notices from AEMO are often larger and occur more frequently during periods of high price volatility. Participants manage their exposure to volatility in the NEM through hedging contracts, which have varying settlement arrangements. Settlement for over-the-counter (OTC) contract trades has been largely standardised so that settlement occurs on the same day as settlement in the NEM. A 20 business day settlement cycle means there may be significant time lags between when a market participant must respond to a Call Notice, and when participants receive the benefit of any offsetting difference payments from contracts. This means participants may take the precaution of holding additional working capital to respond to Call Notices.

GloBird is of the view that this rule change request may benefit retailers (particularly smaller retailers) by freeing up working capital, supporting increased investment in service innovations, lowering barriers to market entry, and reducing the risk of retailer failure. This in turn may benefit customers through access to better service offerings, increased competition, and a lower risk of customer disruption due to retailer failure.

AUSTRALIAN ENERGY MARKET COMMISSION LEVEL 15, 60 CASTLEREAGH STREET SYDNEY NSW 2000
T: 02 8296 7800 E: AEMC@AEMC.GOV.AU W: WWW.AEMC.GOV.AU

In addition to the NER, certain procedures and contractual arrangements may be impacted by this rule change proposal

In addition to amendments to the NER, the proponent has also identified procedures and contractual arrangements that would be impacted by its proposed changes. This includes:

- AEMO procedures that impact settlement (for example, section 2.5 of the Sport Market Operations Timetable)
- The Credit Limit Procedures and prudential settings established by AEMO under clause 3.3.8 of the NER
- Financial contracts of market participants which are linked to NER settlement arrangements.

Stakeholder feedback will support our assessment of this rule change proposal

To assess whether we should make a rule change to shorten the NEM settlement cycle, the Commission is interested in stakeholder reviews regarding:

- the costs and benefits of a shorter settlement cycle
- the impact of changing prudential requirements
- the impact of changing settlement timetables for relevant financial contracts
- implementation considerations, risks, and opportunities
- the optimal length of the settlement cycle.

We are seeking stakeholder submissions by 4 April 2024. There will be additional opportunities for engagement throughout the course of this rule change process.

For information contact:

Senior Adviser, **Julia Cassuben** (02) 8296 7800

Director, **Kate Wild** (02) 8296 0622

Media enquiries: media@aemc.gov.au

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