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Australian Energy Market Commission

By online submission

Shortening the Settlement Cycle

Alinta Energy welcomes the opportunity to comment on the AEMC's consultation paper in this matter.

Alinta Energy is a retailer with over one million customers and has an Australian generation portfolio of nearly 3GW. Alinta Energy supports the proposal to reduce the settlement time frame from 20 business days following the end of a billing period, to 10 business days.

Alinta Energy has the following further comments in respect of the consultation paper's questions:

1. Length of the NEM settlement cycle:

a. Do you agree that the current length of the settlement cycle negatively impacts market participants?

Yes, to the extent that the settlement cycle is unnecessarily long, this increases prudential costs and risks to market participants. These costs are then passed on to customers.

b. The proponent has focused on impacts on market customers. What are the impacts on other classes of market participants?

For generators who are participating in financial markets, such as futures, any delay in settlement of the physical market creates a gap in between the settlement of the relevant financial market (which is generally settled immediately) and the settlement of the physical. This gap must be financed by the business in the interim and causes similar costs to the generator as those identified by the proponent of this rule change as being borne by retailers in respect of increased prudential requirements.

c. Is this a material issue?

Yes. Should the AEMC wish to discuss specifics on this point, please contact the author of this submission to arrange a further discussion.

2. What are your estimated costs and benefits of shortening the NEM settlement cycle?

a. Please provide supporting evidence/analysis.

See our response to 1.c. above.

b. What are the financial and non-financial costs of shortening the settlement cycle?

Other than the costs of implementation, we do not consider there to be any material costs associated with the shortening of the settlement cycle.

c. What are the financial and non-financial benefits of shortening the settlement cycle?

See our responses 1.a. and 1.b. above.

3. What are your views on amending the prudential requirements (including Credit Limit Procedures) to reflect a shorter settlement cycle?

We do not have any objections to such a change.

4. What are your views on amending the settlement timetables for relevant financial contracts to align with any changes to the NEM settlement cycle?

The settlement timetables for relevant financial contracts should be aligned with the NEM settlement cycle. There will be some costs incurred by participants to manage the transition with counterparties around the change.

a. How would a change to the NEM settlement cycle impact relevant financial contracts?

No comment at this stage, we will need to assess this on a contract-by-contract basis.

b. Noting that some contracts are contracted up to three years out, are there implications for changing the settlement timetable for contracts already in place?

As above, noting that term of trade should be irrelevant.

5. What are the potential implementation issues and considerations in shortening the settlement cycle?

- Participants who are party to reallocation agreements would need to consider potential impacts.
- AEMO would need to assess whether shortening the settlement cycle is likely to have a material impact on the quality of settlement data at the final settlement.

6. What, in your view, is the optimal length of the settlement cycle

From a participant's perspective, the shorter the better, if there are not material impacts on the quality of settlement data. AEMO will need to provide an explanation of the likely impacts on settlement quality for various options for the optimal length to be determined.

7. Assessment framework

No comment.

Thank you for your consideration of our submission. If you would like to discuss this further, please contact Hugh Ridgway at hugh.ridgway@alintaenergy.com.au.

Yours sincerely

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