

4 April 2024

Anna Collyer
Chair
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submitted online: www.aemc.gov.au

Dear Ms Collyer

Shortening the Settlement Cycle – Consultation Paper

Origin Energy Limited (Origin) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) Shortening the Settlement Cycle Consultation Paper.

The National Electricity Market's (NEM) prudential regime is critical in supporting the financial security of the Australian Energy Market Operator (AEMO) and market participants. The regime currently requires retailers to provide a level of credit support sufficient to eliminate any financial risk to AEMO or the NEM in the event they default on payments owed for procuring energy. The proposed rule suggests the prudential burden could be reduced by shortening the settlement cycle from the current 20 business days to 10. We consider further analysis is required to demonstrate this is the case, and that net benefits would be realised from the change.

Origin accepts that, *in principle*, a shorter settlement cycle should reduce the quantum of AEMO's financial exposure, and enable it to reduce the amount of credit support each retailer is required to provide.

As noted in the Consultation Paper, there is a direct link between the length of the settlement cycle and level of credit support market participants must lodge with AEMO. However, it is difficult to assess the costs / benefits of the proposal in the absence of understanding how the calculation of key prudential parameters under AEMO's Credit Limit Procedures (CLP) (which govern the prudential settings for market participants) would change.

To this end, the AEMC should seek initial advice from AEMO on the implications of the proposed rule for the prudential regime. Amongst other things, it would be beneficial for AEMO to:

- outline the necessary amendments to the CLP;
- update its Maximum Credit Limit (MCL) calculator to enable participants to calculate their notional credit support requirements under the proposed rule; and
- provide its perspective on any trade-offs associated with the proposal in the context of ensuring the broader NEM prudential standard is met, and whether there may be a more preferable / optimal settlement cycle.

We also recommend the AEMC consults further on the outcomes of the above analysis (i.e. as part of a Directions Paper) prior to proceeding to a Draft Determination. This will enable all parties to make more informed comment on the matter.

If you wish to discuss any aspect of this submission further, please contact Steve Williams at steve.williams@originenergy.com.au or on 0409870998.

Yours Sincerely,

A handwritten signature in black ink, reading "S Cole". The "S" is large and stylized, and "Cole" is written in a cursive script.

Shaun Cole
Group Manager, Regulatory Policy