



# INFORMATION

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## Shortening the settlement cycle

### **The Commission has made a more preferable draft rule to shorten the NEM settlement cycle from 20 business days to 11 business days**

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.

This differs from the proponent's rule change request which proposed to shorten the NEM settlement cycle to 10 business days. This additional day in the settlement cycle addresses feedback from the Australian Energy Market Operator (AEMO), including feedback noting that under the proponent's proposal, draft and final statements would be issued on the same day of the week. This would create administrative pressures for AEMO.

Under the draft determination there would be an 18-month implementation period following publication of the final rule. This would allow AEMO sufficient time to update relevant procedures and guidelines, and participants to adjust any necessary contracts.

### **Shortening the NEM settlement cycle would deliver a range of positive outcomes for market participants, consumers, and the electricity retail market more broadly**

Shortening the NEM settlement cycle to 11 business days would reduce working capital requirements for market participants by:

- lowering the quantum of credit support that market participants must lodge with AEMO as part of the prudential regime
- shortening the settlement cycle for certain financial contracts, which would reduce the quantum of working capital that market participants may need to hold to respond to Call Notices from AEMO.

Lowering working capital requirements for market participants, including retailers, would support increased investment in service innovation, lower barriers to retail electricity market entry, and reduce the risk of retailer failure. We consider that this in turn would have material benefits for consumers through access to better service offers, more choice, more competitive pressure on retail prices, and less customer disruption resulting from retailer failure.

We also consider that this change would benefit smaller retailers in particular, which typically have less access to capital and higher financing costs, and face different costs and risks to larger retailers. Smaller retailers play an important role in driving value for consumers in the retail electricity market. Lowering barriers to entry and driving competition is critical in delivering better outcomes for consumers, as new market entrants contribute to competitive outcomes through competing with existing retailers on price, product offering and innovation, and service quality.

### **Our draft determination was informed by stakeholder feedback and further analysis from AEMO**

Our draft determination was shaped by the 11 stakeholder submissions we received on the consultation paper. 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 market participants and consumers.

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.

Our draft determination was also 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.

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

We note that there will likely be implementation costs associated with shortening the settlement cycle, particularly for AEMO as the entity responsible for running the settlements process. AEMO will prepare costings as part of its High Level Implementation Assessment (HLIA) following the 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 our position for the final determination.

### Next steps

Stakeholders can help shape the solution by participating in the rule change process. We are seeking stakeholder feedback on the draft determination and rule by **3 October 2024**.

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