

3 October 2024

Anna Collyer
Chair
Australian Energy Market Commission
Online Submission: ERC0384

Dear Ms Collyer

Draft Determination – Shortening the settlement cycle

This letter and attachment constitute AEMO's submission to the Draft Rule determination on the National Electricity Amendment (Shortening the settlement cycle) Rule, published 8 August 2024.

AEMO appreciates this opportunity to respond to the Draft Determination and thanks the AEMC for the extended consultation period.

In this submission and attachment AEMO puts forward an alternative settlement cycle to that of the Draft Rule. AEMO considers the alternative should better satisfy the aims of the Commission in shortening the settlement cycle, and better support the National Electricity Objective (NEO) with respect to the price and quality of supply in the long-term interests of consumers.

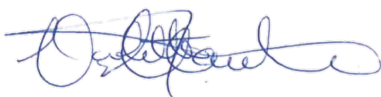
AEMO's alternative provides benefit to participants by shortening the settlement cycle further to 9 business days (BDs) with the publishing of both Preliminary and Final statements in a shorter timeframe. This is complemented by the introduction of an additional revision (R0), which offsets any meter data corrections and intervention compensation process that would otherwise be postponed to Revision 1 statement (R1) under a shorter settlement cycle. AEMO considers the alternative should be made instead of the Draft Rule as it:

- Further shortens the period between participants making margin payments to AEMO under the NEM prudential framework and settling their hedge positions following Final statement settlement.
- Reduces the outstandings period that must be covered by credit support by an additional 4 days.
- Provides comfort to participants that there is a new quick revision (R0 at 20 BDs) after Final settlement, minimising the risk of special revisions and ensuring participant financial position at 20 BDs is on par with today's arrangements.
- Allows metering data corrections and intervention settlements to be managed at R0, instead of deferred to R1.
- Retains the Preliminary statement published at 3 BDs, that allows participants an earlier opportunity to identify any material metering data errors and receive data at a time that closely aligns with prudential position updates.

AEMO appreciates the opportunity to work closely with the AEMC and engage with industry throughout this rule change process.

If you have any questions regarding this submission, please contact David.Scott@aemo.com.au.

Yours sincerely,



Violette Mouchaileh
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ATTACHMENT 1 – detailed response

1 Background

In response to the consultation paper in March 2024, AEMO was unsure of the effects of shortening the cycle on its metering exception management processes and its ability to prepare final settlement statements at a requisite quality. This was investigated in AEMO's supplementary¹ analysis which provided information on resolving historical metering exceptions (errors in data) and an estimate of the level of settlement variation that may be expected in the first revision upon 20 weeks if the cycle was shortened as had been proposed by GloBird.

In responding to AEMO's supplementary analysis the AEMC has proposed a "more preferable" Draft Rule. It varies slightly from the GloBird proposal of settlement at 10 BDs, instead being 11 BDs and without any change to the date required for the publication of the Preliminary settlement statement.

The section below clarifies some of the assumptions discussed in the Draft Determination and considered as the basis of the Draft Rule.

1.1 Settlement analysis

The Draft Determination discusses the difference between current Preliminary and R1 as shown in AEMO's supplementary analysis as a reasonable proxy for the difference between Final and R1 under a shorter settlement cycle. The Draft Determination describes this supplementary analysis as providing confidence to shorten the settlement cycle as there is historically only a small change in meter data quality between Preliminary and Final. The Draft Determination considers this decrease in meter data quality under a shorter settlement cycle a reasonable trade-off to achieve the benefits of a shorter settlement cycle.²

While AEMO agrees with this interpretation, it is important to note the analysis presents an average or expected energy variance but does not present a worst case or stress scenario. This provides insight into the historically low levels of error in settlement statement generation but has the potential to mask a large error or potential failure in settlement statement generation and publication. If a large error did occur, at present it is likely to be resolved before Final at BD20. Under a shorter settlement cycle it would likely be settled at a R1 meaning there is potential for the financial position of participants to vary significantly after 20 weeks.

AEMO is also conscious generator and load profiles are changing, and this has potential to increase the scale and complexity of metering data processing and substitutions that feed into settlement statements. In practice, AEMO seeks to minimise the risk that participants carry material errors or energy variance for significant periods of time.

1.2 Metering exceptions

The AEMC Draft Determination also discusses the metering exception management process as set out in AEMO's Supplementary Analysis. Importantly, metering exceptions may be raised and corrected at any point in the settlement cycle with AEMO tracking exceptions that are raised before each settlement statement run. Metering exceptions that are not resolved prior to statement generation are rolled over to the next statement.

The Draft Determination discusses the need to retain Preliminary publishing at 5 BDs in the Draft Rule to "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".³ The Draft Rule prioritises this by retaining the existing Prelim at 5 BDs, compared to the 3 BDs in the rule change proposal. While AEMO appreciates the AEMC recognition of this process, AEMO does not consider it necessary to preserve

¹ [20240719 Submission AEMC Request for settlements analysis.pdf](#)

² [AEMC Draft Determination – Shortening settlement cycle, page 21](#)

³ [20240719 Submission AEMC Request for settlements analysis.pdf, page 7](#)

Preliminary at this current timing. Although some exceptions are resolved prior to Preliminary statement publishing, Preliminary only seeks to provide participants with an indicative view. Metering exceptions are resolved over the full cycle and AEMO is of the view that the metering exception management process is best interpreted as seeking to resolve exceptions prior to the current Final settlement (BD 20) or through to Revisions.

1.3 Processing for Preliminary and Final

The Draft Rule allocates 4 BDs between Preliminary and Final. How this period is to be used by both participants and AEMO is not specified in the Draft Determination⁴, but AEMO has assumed the thinking behind this period was to allow extra days to resolve some exceptions and then re-run the Meter Data Management (MDM) system with updated available data.⁵

In practice, AEMO views the purpose of the Preliminary and Final statement process is to allow the opportunity for participants and AEMO to raise or identify any extraordinary metering errors earlier in the settlement cycle. Ensuring participants have an early view of their settlement amounts allows AEMO, participants or MDPs to trigger processes to resolve metering errors, including the potential for a revision or even dispute. Retaining a Preliminary statement is also an important business continuity arrangement to ensure AEMO has data available to settle the market in the event of material systems failure.

⁴ AEMC Draft Determination P12

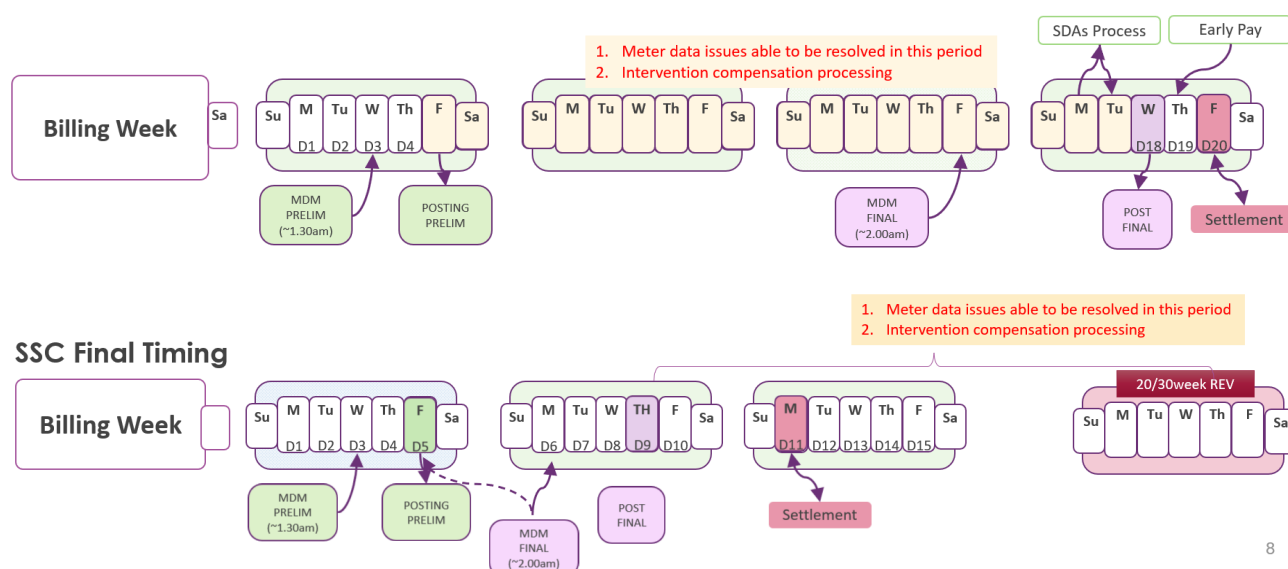
⁵ The option to resolve metering exceptions under the Draft Rule is further discussed in the AEMO HLIA, as the difference between Pathway 1 and 2.

2 The Draft Rule

Figure 1 sets out the current settlement processes as compared to the Draft Rule. Under the **current settlement cycle** at 20 BDs, a run of the MDM system occurs at BD 3, the Preliminary statement is posted on BD 5, and the Final statement is posted on BD 18. In that time MDPs and AEMO resolve exceptions and process compensation amounts payable under the intervention frameworks, including RERT, directions and market suspension.

The **Draft Rule** retains the existing MDM run for the Preliminary statement at BD 5 and requires AEMO to publish the Final statement on BD 9, for settlement on BD 11. Figure 1 also shows a second MDM run between Preliminary and Final on either BD 5 or BD 6. Under this proposed timing, bringing forward the Final statement reduces the number of days to resolve metering exceptions and to process intervention frameworks, leaving these to be accounted for in participant statements at the first Revision (R1) at 20 weeks⁶.

Figure 1 Current and Proposed Settlement Cycle



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AEMO has assessed the Draft Rule and presented an alternative which it considers resolves some of the risks introduced under an SSC, while increasing the prudential benefits. This alternative is discussed in Section 3 below and AEMO considers it should be made instead of the Draft Rule. AEMO does not consider the Draft Rule should be made as:

- It limits the opportunity to further shorten the cycle by retaining the timing of the existing Preliminary statement (at 5 BDs);
- The timing between Preliminary and Final will be of limited practical value in resolving metering exceptions, re-running MDM, or raising and resolving any dispute;
- Without settlement of some kind at 20 BDs, the significant period prior to settlement at BD 20 used to resolve metering exceptions and to process intervention frameworks⁷ is lost meaning:
 - Participants' financial position at 20BDs is not on par with the current cycle;

⁶ The Draft Rule retains settlement for intervention frameworks, including RERT, directions and market suspension compensation at Final settlement. AEMO has assessed this in the High-Level Implementation Assessment as not feasible within the condensed timeframe. Instead to implement the Draft Rule intervention frameworks would be included at R1.

⁷ RERT, directions compensation, and market suspension compensation

- Increase in unresolved exceptions leading to more energy settlement at R1 (20 weeks)
- Payments for intervention frameworks would be settled at R1, this may represent a significant change in participant financial position and is not currently NER compliant (NER 3.12.1) which requires inclusion of these amounts in Final statements.⁸

AEMO presented three pathways for implementation of SSC in its High-Level Implementation Assessment (HLIA).⁹ Pathway 1 implements the Draft Rule while seeking to maintain the level of metering data quality at Final. In doing so, Pathway 1 requires new processes and systems to manage exceptions, including tighter MDP timelines. Pathway 2 implements the Draft Rule as suggested in the Draft Determination – by allowing meter data quality at Final to reduce, Participants financial position at Final statement settlement may not be equivalent with that at 20 BD under the current cycle. Pathway 3 is an alternative settlement cycle as discussed below.

Regardless of the implementation approach (Pathway 1 or 2) AEMO considers the Draft Rule misses an opportunity to shorten the cycle further and maximise the prudential benefits of this policy. It also does not align Participants' financial position under the shorter cycle with today's arrangements; and would result in greater financial adjustments at R1, not just energy, but also market intervention settlement. The days that MDPs and AEMO presently use to resolve exceptions in between the Preliminary and Final settlement at BD 20 are lost, resulting in either increasing corrections at R1 (Pathway 2) or the need for a significant uplift of processes and systems to maintain metering data quality for Final statement at 9 BDs (Pathway 1).

3 Alternative settlement cycle

AEMO is pleased to present the alternative settlement cycle and considers it should be made in place of the Draft Rule. The alternative settlement cycle aims to provide the opportunity to:

1. Further shorten the cycle – less than the proposed 11 BDs – this maximises the benefits of the rule change proposal by further reducing the credit risk of, and financial burden to, the NEM's debtors
2. Ensure Participants' financial position around 20 BDs is on par with today's arrangements – this gives participants confidence that with shifting Final settlement earlier they can still resolve some metering exceptions at a time comparable to today's cycle; and
3. Process and settle other financial amounts, like RERT, directions and suspension compensation within a reasonable timeframe; and
4. Minimise the risk of an increased number of participant enquiries or special revisions prior to R1.

Furthermore, in consideration of an alternative settlement cycle pragmatic objectives for implementation and ongoing operational costs include:

5. Avoiding triggering higher service level requirements on Meter Data Providers (MDPs) and new exception management processes to bring Final settlement amounts at BD 9 closer to that of current BD 20; and
6. Making effective use of existing processes for resolving metering exceptions, and processing other payments like RERT, directions and market suspension compensation.

To satisfy these aims AEMO recommends an alternative approach with the following features:

⁸ Alternatively, AEMO has assessed the option to compress intervention settlement processes as part of its High-Level Implementation Assessment (HLIA). At this stage, AEMO does not consider it possible to compress the intervention processes, including compensation and RERT payments to a shorter settlement cycle. Both processes require manual review of generation data, calculation of contract payment amounts and often require engagement with the market participant.

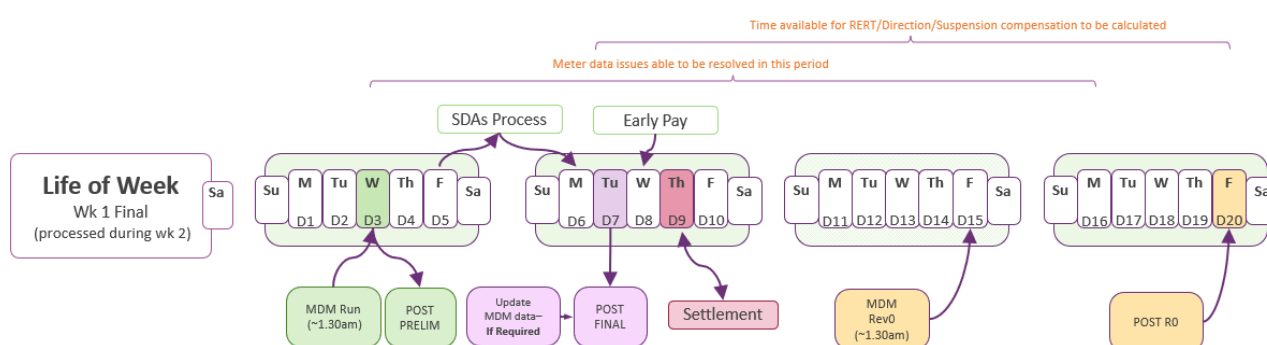
⁹ AEMO, Shortening the Settlement Cycle: DRAFT High-level implementation assessment - <https://aemo.com.au/-/media/files/initiatives/shortening-the-settlement-cycle/shortening-the-settlement-cycle-draft-v-01-high-level-implementation-assessment.pdf?la=en>

1. **A new revision zero (“R0”) at the timing of the existing Final settlement - 20 BD.** Introducing an “R0” at 20 BDs aligns with opportunities 2, 3, 4, 5 and 6 above in that:
 - Metering exceptions can be resolved over the same period they are today, so the Participants’ settlement position at the new R0 is equivalent to that at today’s 20 BD settlement; and
 - RERT, directions, and market suspension compensation can be processed and then paid at “R0”.
2. **Preliminary statement to be issued on BD 3, Final statement issued on BD 7, and settlement on BD 9,** meeting opportunity 1 in that:
 - Final settlement is as close to the billing week as possible – reducing the outstandings period that must be covered by credit support by an additional 4 days, and shortening the timeframe between margining a prudential position with AEMO and settling a hedge arrangement while retaining the confidence settlement errors may be resolved by R0.
 - Participants receive their Preliminary Statement at BD 3 with this timing more closely aligning with the use of the same MDM data run in determination of their prudential position. As such Participants can reconcile their prudential positions earlier rather than waiting to BD 5 to have the Preliminary statements available.
 - The Preliminary-Final statement process is preserved:
 - Allowing participants to receive their statement in Preliminary form to prepare for Final settlement,
 - Retains the option to update for Final should there be any major exceptions that are identified in the Preliminary statement, based on updated MDM run data,
 - Maintains business contingency in the event of material systems failure.

Figure 2 sets out this alternative settlement proposal.

Under this proposal a run of the MDM system occurs in BD 3, the Preliminary statement is posted on BD 3. If required, AEMO has the capability to use updated MDM run data to prepare the Final statement on BD 7 for settlement on 9 BDs. Additional revision (R0) is posted on BD 20 and includes market intervention settlement processing and resolved exceptions included in the MDM run on BD 15. The R0 adjustment amount is then included in the next available Final statement.

Figure 2 Proposed Alternative Settlement Cycle



The following section details the specific design decisions for the alternative settlement cycle. AEMO has also completed an initial implementation assessment of the alternative settlement cycle (Pathway 3) published in the High-Level Implementation Plan.¹⁰

3.1 Purpose of the R0

AEMO anticipates settling on the data that was used for the Preliminary statement in a shorter settlement cycle. AEMO's exceptions management processes that are currently completed between current Preliminary and Final statements are not addressed by the new 'Final' statement at BD 7. Therefore, the introduction of R0 is intended for raising and correcting exceptions such as retrospective Financially Responsible Market Participant (FRMP) corrections, retrospective standing data corrections (TNI, DLF, data streams, etc.) and metering data corrections.

Absent the R0, (as per the Draft and Proposed Rules) participants would have to wait for 20-week revisions for settlements to reflect data abnormalities that may have otherwise been corrected between Preliminary and Final settlement. Whilst these corrections are usually not that material, (as investigated in the supplementary analysis AEMO provided to the AEMC), an opportune revision (being R0 on BD 20) means these errors do not need to be carried for so long, and participants' financial position under AEMO's proposed alternative can be equivalent to that of today. The R0 can also negate the possibility of a special revision trigger event if a participant identifies a meter data exception in their Final statement that reflects greater than 5% of their settlement amount.¹¹ Instead, this type of error can be resolved at R0 aligning meter data quality with current settlement statement timeframes.

An added benefit of the R0 is the ability to process intervention framework payments and include them within R0. This would allow alignment of the market intervention settlement timetable with the R0 and settlement of these amounts would occur in a similar timeframe to now acknowledging that intervention settlement processes do not have the capability to be run to a shorter settlement.

3.2 Purpose of Preliminary and Final statements

By achieving the aim that a shorter settlement cycle should not degrade a participant's financial position currently at Final settlement BD 20, met through introducing the R0, AEMO considers earlier processes, like the Preliminary statement, can also be amended to shorten the cycle further. AEMO proposes to issue the Preliminary Statement on the day the meter data is received¹² BD 3. This means participants will receive the data at a time that closely aligns with prudential position updates, being as soon as billing is run for the Preliminary.

Issuing the Preliminary statement provides participants with an indicative amount to prepare for settlement. It allows them to review and raise any extraordinary data issues for correction. While AEMO or the MDP may not always be able to resolve these issues in time for the Final, the earlier the participant receives Preliminary the better the chance issues will be able to be identified and resolved by R0.¹³

Ultimately, retaining the two-step statement process preserves settlement statement process integrity – prior to Final settlement the Participant is informed of settlement amounts and there is an opportunity to utilise updated MDM data in more exceptional cases. The use of a two-step statement process also provides

¹⁰ AEMO, Shortening the Settlement Cycle: DRAFT High-level implementation assessment - <https://aemo.com.au/-/media/files/initiatives/shortening-the-settlement-cycle/shortening-the-settlement-cycle-draft-v-01-high-level-implementation-assessment.pdf?la=en>

¹¹ [NEM Settlements Revisions Policy](#)

¹² Metering data is received from MDPs at 5PM BD 2. AEMO would then publish Preliminary the following midday.

¹³ If there are large errors in amounts that are not able to be resolved quickly, AEMO has the option of a Prudential adjustment which allows AEMO to manually adjust a participants financial position, if the participant or AEMO can clearly demonstrate the error or inaccuracy in settlement estimation.

important contingency in the event of a material systems failure. This is important for mitigating cybersecurity risks, where a priority is continuity of market settlements.

Although, the Draft Rule also retained Preliminary and Final, it isn't clear if the 4-day process in the Draft Rule between Preliminary and Final statements envisages a re-run of MDM to resolve some exceptions. While it may be assumed that it was expected to be taken, AEMO does not believe the Commission was wedded to this process.¹⁴ In contrast, the AEMO alternative anticipates the usual process may use a single MDM metering case in preparing both Preliminary and Final statement. This minimises the risk associated with updating metering data within three days, which while it could result in some Preliminary issues being resolved, may also introduce new complications in exception management and would increase workload for only marginal benefit in settlement statements.

AEMO is of the view that retaining a streamlined two-step process in combination with the introduction of the R0, best meets the policy objectives while minimising participant and implementation impacts by allowing metering exceptions and intervention frameworks to be resolved by R0.

¹⁴ This is discussed in section B.1 of the Draft Determination where the Commission accepts that increases in settlement at later revisions were acceptable and outweighed by the benefits of reducing the working capital needed to manage the NEM's debts.