

## Rule determination

# National Electricity Amendment (Shortening the settlement cycle) Rule 2024

### Proponent

GloBird Energy Pty Ltd

## Inquiries

Australian Energy Market Commission  
Level 15, 60 Castlereagh Street  
Sydney NSW 2000

E [aemc@aemc.gov.au](mailto:aemc@aemc.gov.au)  
T (02) 8296 7800

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## About the AEMC

The AEMC reports to the energy ministers. We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the energy ministers.

## Acknowledgement of Country

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## Summary

- 1 The Australian Energy Market Commission (AEMC or Commission) has decided to make a more preferable final rule (final rule) in response to a rule change request submitted by GloBird Energy (the proponent) on 6 December 2023.
- 2 The final rule will amend the National Electricity Rules (NER) to shorten the national electricity market (NEM) settlement cycle to nine business days following the end of a billing period. The final rule also introduces a new routine revision at 20 business days following the end of a billing period.
- 3 A shorter NEM settlement cycle would reduce working capital requirements for most market participants by:
  - lowering the quantum of credit support that market participants must lodge with the Australian Energy Market Operator (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.
- 4 This change will benefit most retailers, and small retailers in particular, who typically have less access to capital and higher financing costs. Lowering working capital requirements for smaller retailers would support lower prices for customers and/or increased investment in service innovation, lower barriers to retail electricity market entry, and reduced risk of retailer failure. This, in turn, would have material benefits for consumers through access to better service offerings, more choice, and more competitive pressure on retail prices. We consider that these benefits outweigh the costs associated with implementing the rule change.

## The length of the settlement cycle is linked to the prudential regime

- 5 The length of the settlement cycle is linked to the impact of the prudential regime on market participants in two key ways:
  1. **The quantum of credit support that market participants must lodge with AEMO** — under the prudential regime, market participants must lodge credit support with AEMO equivalent to their Maximum Credit Limit (MCL). The length of the settlement cycle is a direct input to the calculation of the MCL, such that a longer settlement cycle leads to a higher MCL, and therefore a higher quantum of credit support that market participants must lodge with AEMO.
  2. **How market participants manage the risk of Call Notices** — the settlement of over-the-counter (OTC) hedge products is linked to the settlement cycle. Under the current 20-business day settlement cycle, there may often be a significant time lag between when market participants must respond to a Call Notice from AEMO, and when they receive the benefit of offsetting difference payments from their hedge contracts. This means that prudent market participants may often hold additional working capital to respond to AEMO Call Notices during the settlement cycle.

## A shorter settlement cycle will benefit consumers

- 6 We consider that shortening the settlement cycle would deliver significant benefits to consumers. It would reduce the quantum of credit support that most market participants must lodge with AEMO. AEMO's preliminary analysis is that, based on a total MCL over 2023 of \$1.4 billion, the estimated credit support reductions equate to \$140 million to \$280 million.

- 7 A shorter NEM settlement cycle will also shorten the settlement cycle for most OTC hedge products, which will lower the quantum of capital participants may hold to respond to Call Notices.
- 8 Freeing up working capital for market participants is expected to have a particularly significant impact for most smaller retailers, which generally have less access to capital and a higher cost of finance. Access to more working capital will support retailers to invest further in service innovations, expanded offerings for consumers, or lower prices for their customers. These changes would also reduce barriers to entry into the retail electricity market, which will in turn support competition, more choice, and competitive pressure on prices for consumers.
- 9 We note the critical role that smaller retailers play in driving competition and value for consumers in the NEM. We also acknowledge that small and standalone retailers may face different costs, risks, and pressures relative to other market participants. This increases the relative importance of changes to the settlement cycle for smaller retailers.

## AEMO identified a preferred approach to shortening the settlement cycle

- 10 Following the publication of the draft determination, AEMO produced its High-Level Impact Assessment (HLIA) to provide a preliminary view to participants on how the draft rule would be implemented. In the HLIA, AEMO identified an alternative option to the draft, to reduce the settlement period to 9 business days and introduce a new routine revision at 20 business days.
- 11 AEMO considered that the benefits of the new approach would be a further reduction in the length of the settlement cycle from that proposed in the draft, thus building on the benefits the Commission identified from a shorter settlement cycle. Further, the new revision would help minimise the risk of increased special revisions and ensure a participant's financial position at 20 business days is on par with today's arrangements.
- 12 AEMO has provided a preliminary cost estimate of a one-off \$19 million in capital expenditure (CAPEX) (including a 50 per cent contingency) plus \$4 million in operating expenditure (OPEX) spread over ten years to implement the alternative option.

## The Commission considered stakeholder feedback in making its decision

- 13 Our final determination has been shaped by the 16 stakeholder submissions we received on the draft determination and AEMO's alternative option. While stakeholder feedback was mixed, most supported a shorter settlement cycle. Of those who supported the change, most strongly supported AEMO's alternative option over that in the draft rule.
- 14 Stakeholders who supported a shorter cycle noted that it would deliver overall benefits to the market and promote the National Electricity Objective (NEO). The rule would reduce the working capital for smaller retailers, reduce barriers to entry and inevitably lead to increased competition.
- 15 Stakeholders who supported AEMO's alternative option noted that the proposed new revision would manage any meter data issues that may have arisen under the proposed draft rule, and would mean intervention compensation could be settled at 20 business days. This would leave participants in the same financial position as today.
- 16 Some stakeholders did not agree with AEMO's proposal to include a new revision as it would introduce participant costs and complexity. However, participants did not quantify the level of costs resulting from a new revision.
- 17 Other stakeholders questioned if shortening the settlement cycle would achieve the scale of

benefits anticipated by the proponent, and noted that some retailers may face negative impacts on their working capital from a shorter cycle. Others called for the Commission to carefully consider the costs and benefits of the rule change. However, these stakeholders did not quantify what costs they may incur from a shorter settlement cycle.

## We assessed our final rule against four assessment criteria

- 18 The Commission has considered the NEO, and the issues raised in the rule change request, and assessed the final rule against four assessment criteria outlined below. We gathered stakeholder feedback and undertook regulatory impact analysis in relation to these criteria.
- 19 The more preferable final rule will or is likely to better contribute to achieving the NEO by:
- **Improving outcomes for consumers** – lower working capital requirements for most market participants would benefit smaller retailers in particular, by lowering barriers to market entry and increasing the ability to invest in service innovation or lower prices for customers. This increased competition and investment would in turn benefit consumers through more choice and competitive offerings.
  - **Driving market efficiency** – we consider that our final rule would support a more modern and efficient settlement process that reflects the increasing penetration of smart meters.
  - **Supporting innovation and flexibility** – shortening the settlement cycle would increase working capital available to market participants, which will provide more opportunities to invest in innovative services. We also consider that a shorter settlement cycle would support more flexible cash flow and access to capital for market participants.
  - **Considering implementation matters** – we consider that our more preferable final rule of nine business days is implementable and strikes an effective balance between achieving the benefits of a shortened settlement cycle and managing operational considerations.

## The Commission's final rule is to move to a nine-day settlement cycle

- 20 Based on the above, the Commission considers that the benefits of shortening the settlement cycle outweigh the costs. The Commission acknowledges stakeholder feedback regarding possible costs from the rule change. However, the majority of stakeholder submissions noted that the rule change would result in cost savings. Further, in the absence of any quantifiable information on cost increases, our assessment is that, overall, the broad market benefits from the rule change outweigh the potential costs to participants.
- 21 The Commission agrees with AEMO and a range of stakeholders that the alternative approach of a nine-day settlement period, with a new revision at 20 business days, will improve on the benefits of the rule change from the proposed draft rule, while addressing the risks associated with the proposed 11-day settlement cycle. The details of the final rule are:
- AEMO will issue **preliminary statements** within **three business days** following the end of the billing period
  - AEMO will then issue **final statements** within **seven business days** following the end of the billing period
  - the payment date will be the **ninth business day** after the end of a billing period, or two business days after receiving a final statement, whichever is the later
  - participants and AEMO will still have **15 business days** following the end of a billing period to use reasonable endeavours to resolve disputes regarding preliminary statements

- AEMO will issue a new **routine revised statement** at **20 business days** following the end of the billing period. This is in addition to the routine revisions that occur at 20 and 30 weeks.

- 22 The Commission notes that there are possible costs associated with introducing a third revision. However, the revision processes at 20 and 30 weeks are needed to account for accumulation meter data and therefore still have an important role.
- 23 The Commission notes that as we move to an increasing penetration of remotely read smart meters, the reasons for needing two revisions at 20 and 30 weeks diminish. As a result, we expect AEMO will be able to reassess the need for the three revisions, with a view to moving to a fit-for-purpose revision process.
- 24 Overall, we consider that there are material benefits to the market from this rule change, which would mean the impact on customers in the long term will be positive despite the initial costs.

## The final rule will commence on 9 August 2026, with AEMO to publish a transition plan

- 25 The final rule will commence on 9 August 2026 which is the start of billing week 33. This will allow AEMO sufficient time to review and update relevant systems, calendars, procedures and guidelines relating to the settlement, prudential and metering data processes. We also consider this timing will give market participants an appropriate amount of time to prepare for the new settlement process.
- 26 The final rule includes transitional provisions that commence on 19 December 2024. They require AEMO to consult with participants and publish a plan for how it will move the market from a 20-business day cycle to nine business days to ensure final statements and settlement are maintained in billing week order. AEMO must also publish a transitional settlement calendar no later than 5 December 2025.

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# 1 The Commission has made a final determination

On 6 December 2023, the Australian Energy Market Commission (the AEMC or Commission) received a rule change request from GloBird Energy Pty Ltd (GloBird or the proponent). The rule change request sought to amend the National Electricity Rules (NER) to shorten the national electricity market (NEM) settlement cycle (the settlement cycle) from 20 business days following the end of a billing period to 10 business days.

This section outlines:

- an overview of our final determination, which is to shorten the settlement cycle to nine business days following the end of a billing period
- how our final determination has been shaped by analysis by the Australian Energy Market Operator (AEMO) and stakeholder feedback.

## 1.1 Our final rule will shorten the settlement cycle to nine business days

The Commission has made a more preferable final rule to shorten the settlement cycle to nine business days following the end of a billing period and introduce a new routine revision at 20 business days (R0).

We consider that these changes will reduce the costs of the prudential regime for most market participants, with benefits flowing through to consumers. The rule will also assist with the stability and financial resilience of the electricity retail market. See chapter 2 for more information.

Under the final rule:

- AEMO will issue **preliminary statements** within **three business days** following the end of the billing period
- AEMO will then issue **final statements** within **seven business days** following the end of the billing period
- the payment date will be the **ninth business day** after the end of a billing period, or two business days after receiving a final statement, whichever is the later
- participants and AEMO will still have **15 business days** following the end of a billing period to use reasonable endeavours to resolve disputes regarding preliminary statements
- AEMO will issue a new **routine revised statement** at **20 business days** following the end of the billing period. This is in addition to the routine revisions that occur at 20 weeks (R1) and 30 weeks (R2).

Shortening the settlement cycle will require system and process changes for both participants and AEMO, including making amendments to non-standard and bespoke contracts. To provide sufficient time for this to occur, the final rule will commence on 9 August 2026. To ensure there is a successful move to a shorter settlement cycle, the final rule requires that AEMO consult with industry to develop a transition plan to make sure:

- final statements and settlement are maintained in billing week order in the lead up to the shorter settlement cycle
- transitional and new settlement calendars are understood so industry is well-prepared
- participants understand the process of introducing the new revision and can make their own system changes as needed
- there is clear timing for credit support requirements.



### 1.1.1 Our final rule will impact AEMO's Credit Limit Procedures and prudential requirements

As part of the NEM prudential regime, market participants must lodge credit support with AEMO equivalent to each participant's Maximum Credit Limit (MCL). The purpose of lodging this credit support is to eliminate risk to AEMO in the event that a market participant defaults and is unable to settle its outstandings.<sup>1</sup> The length of the settlement cycle is a direct input into how the MCL is calculated under AEMO's Credit Limit Procedures (CLP).<sup>2</sup> Therefore, shortening the NEM settlement cycle would impact AEMO's CLP, and lower the quantum of credit support that market participants must lodge with AEMO. Section 3.3.1 explores these impacts further.

### 1.1.2 Our final rule will shorten the settlement cycle for relevant over the counter hedge contracts

Market participants often manage their exposure to price volatility in the NEM through various hedging contracts, which have differing settlement arrangements. Over-the-counter (OTC) contract trades are typically documented using the industry standard International Swaps and Derivatives (ISDA) Master Agreement, and have been standardised so that settlement occurs on the same day as settlement on the NEM. Therefore, a change to shorten the NEM settlement cycle to nine business days would flow through to these contracts. Further information on this is outlined in section 3.3.2.

## 1.2 AEMO's analysis and stakeholder feedback shaped our final determination

The Commission's decision has been shaped by further work carried out by AEMO following the publication of the draft determination as well as stakeholder submissions to our consultation paper and draft determination. It has also been informed by discussions with a range of industry stakeholders, including workshops held by both the AEMC and AEMO. Further detail on the rule-making process is included in appendix A.

Key stakeholder positions, including AEMO's analysis, are summarised below and discussed in context throughout the remainder of this determination.

### 1.2.1 AEMO carried out a high-level implementation assessment of the draft rule

In response to our draft rule to shorten the settlement cycle to 11 business days, AEMO carried out its high-level impact assessment (HLIA) process to help stakeholders understand how the draft rule could be implemented.<sup>3</sup> As part of that, AEMO identified three possible pathways to implement a shortened settlement cycle. The first two pathways were options to implement the proposed draft rule and the third introduced a new option. This new option was to shorten the settlement cycle to nine business days and introduce a new revision at 20 business days to manage exceptions and intervention settlement. This third pathway was AEMO's preferred option as it has a more favourable settlement outcome.

In September 2024, the AEMC and AEMO both held workshops on the rule change and options outlined in the HLIA. In both sessions, we encouraged stakeholders to consider the three pathways in their submissions to our draft determination. Further detail on the three pathways is provided in section 3.1.

<sup>1</sup> A market participant's outstandings is the aggregate of the absolute value of net settlement amounts payable in respect of any billing period, or part of a billing period, that has occurred but not yet been settled less any security deposit funds held by AEMO. More information can be found on AEMO's [website](#).

<sup>2</sup> Further information regarding the relationship between the length of the settlement cycle and the prudential regime can be found in section 2.2 of the consultation paper.

<sup>3</sup> More information on AEMO's HLIA can be found [here](#).

### 1.2.2 Stakeholders provided feedback on our draft rule and AEMO's alternative pathway

We received 16 submissions to the draft determination, 11 of which included feedback on AEMO's alternative pathways.

- A majority of stakeholder submissions supported a shorter settlement cycle and agreed with the broad market benefits identified by the draft determination, particularly for small retailers.
- Nearly all stakeholders who supported a shorter settlement cycle preferred AEMO's alternative option over the draft rule. They noted that the alternative option builds on the benefit to participants we outlined in the draft determination and the addition proposed R0 would manage meter data issues that could potentially arise under the draft rule and address the timing of intervention compensation.
- However, some stakeholders argued that introducing a third revision process would introduce costs and complexities for participants. These costs were not quantified, but the Commission has noted the possible increase in administrative costs and burden for participants when making the final rule.
- The remaining submissions did not agree there was a need to shorten the cycle, with Energy Locals noting that the shorter cycle was likely to have negative impacts on small retailers.<sup>4</sup>
  - The Commission notes the concerns raised by Energy Locals but, given that other small retailers observed that the rule change will result in costs saving, the Commission considers that the rule change will benefit a wide range of participants overall.
- Some submissions, including from meter data providers (MDPs), noted that there would be costs associated with the change and, therefore, a more detailed cost-benefit analysis was needed to support the change.
  - Following the HLIA, AEMO has provided the Commission with indicative costs to implement the alternative option which are in the order of a one-off \$19 million in capital expenditure (CAPEX) (including a 50 per cent contingency) plus \$4 million in operating expenditure (OPEX) spread over ten years.
  - AEMO also noted in its submission to the consultation paper that, based on a total MCL in 2023 of \$1.4 billion, its preliminary analysis is that the estimated credit support reductions from the shorter settlement cycle equate to \$140 million to \$280 million.
  - Given the range of broader market benefits that will continue to accrue over the longer term, the Commission has determined that the benefits of the shorter settlement cycle outweigh these costs.

Further detail on the submissions and the Commission's analysis of the information provided by stakeholders is provided in chapter 3 and appendix E.

<sup>4</sup> Energy Locals, submission to draft determination, pg 1.

## 2 The rule will contribute to the energy objectives

The Commission considers that our final rule will promote the National Electricity Objective (NEO). Reducing working capital requirements for most market participants would significantly benefit smaller retailers and lower barriers to entry in the retail electricity market. This would increase competition, give consumers more choice, and put more competitive pressure on prices.

### 2.1 The Commission must act in the long-term interests of energy consumers

The Commission can only make a rule if it is satisfied that the rule will or is likely to contribute to the achievement of the relevant energy objectives.<sup>5</sup> For this rule change, the relevant energy objective is the NEO, which is:<sup>6</sup>

to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to—

- (a) price, quality, safety, reliability and security of supply of electricity; and
- (b) the reliability, safety and security of the national electricity system; and
- (c) the achievement of targets set by a participating jurisdiction—
  - (i) for reducing Australia’s greenhouse gas emissions; or
  - (ii) that are likely to contribute to reducing Australia’s greenhouse gas emissions.

The targets statement, available on the AEMC website, lists the emissions reduction targets to be considered, as a minimum, in having regard to the NEO.<sup>7</sup>

### 2.2 We must also take these factors into account

#### 2.2.1 We have considered whether to make a more preferable rule

The Commission may make a rule that is different, including materially different, to a proposed rule (a more preferable rule) if it is satisfied that, having regard to the issues raised in the rule change request, the more preferable rule is likely to better contribute to the achievement of the NEO.<sup>8</sup>

For this rule change, the Commission has made a more preferable final rule. The reasons are set out in section 2.3 below.

#### 2.2.2 We have considered how the rule will apply in the Northern Territory

In developing the final rule, the Commission has considered how it should apply to the Northern Territory according to the following questions:

- Should the NEO test include the Northern Territory electricity systems? For this rule change request, the Commission has determined that the reference to the “national electricity system” in the NEO includes the local electricity systems in the Northern Territory.

<sup>5</sup> Section 88(1) of the NEL.

<sup>6</sup> Section 7 of the NEL.

<sup>7</sup> Section 32A(5) of the NEL.

<sup>8</sup> Section 91A of the NEL.

- Should the rule be different in the Northern Territory? The Commission has determined that a uniform rule should apply to the Northern Territory.

Chapter 3 of the NER (Market Rules) does not currently apply in the Northern Territory and has no effect in that jurisdiction. However, Chapter 10 (Glossary) and Chapter 11 (Savings and Transitional Rules) of the NER do apply in the Northern Territory. The final rule proposes to amend the definition of “*payment date*” which is set out in Chapter 10. The only references to the term “*payment date*” are found in a few clauses in Chapter 3. Therefore, the proposed changes to the definition will not impact the operation of the Northern Territory version of the NER and will have no practical relevance.

See appendix C for more detail on the legal requirements for our decision.

## 2.3 How we have applied the legal framework to our decision

The Commission must consider how to address improvements to the length of the settlement cycle against the legal framework. We identified the following criteria to assess whether the proposed rule change, no change to the rules (business-as-usual), or other viable, rule-based options are likely to better contribute to achieving the NEO:

- outcomes for consumers
- principles of market efficiency
- innovation and flexibility
- implementation considerations

These assessment criteria reflect the key potential impacts – costs and benefits – of the rule change request, within the scope of the NEO.<sup>9</sup>

The Commission has carried out regulatory impact analysis to evaluate the impacts of the policy options against the assessment criteria. Appendix B outlines the methodology of the regulatory impact analysis. The rest of this section explains why the final rule best promotes the long-term interest of consumers when compared to other options and assessed against the criteria.

### 2.3.1 We have made a more preferable final rule

Taking into account feedback received from stakeholders, we have made a more preferable final rule that is different to the rule change request. Under our proposed draft rule, AEMO would be required to run preliminary and final settlements on a condensed timeline. This had the potential to negatively impact meter data quality and reduce the timeframe for participants to use their reasonable endeavours to resolve disputes. The shorter settlement cycle would also mean intervention settlement would not occur until the routine revision at 20 weeks.

The introduction of a new routine revision at 20 business days addresses some of these issues. It will ensure that there is sufficient time to manage meter data exceptions, calculate intervention settlement amounts and resolve disputes while still placing participants in the same financial position at 20 business days as they are today. Therefore, we consider that our more preferable final rule will better contribute to achieving the NEO as it strikes an effective balance of supporting a more efficient settlement cycle that delivers long-term benefits for consumers, while also managing implementation and operational considerations.

<sup>9</sup> Our reasons for choosing these criteria are set out in section 4.2 of the consultation paper found [here](#).

### 2.3.2 Improving outcomes for consumers

We consider that our final rule would have material positive impacts for consumers.

Shortening the settlement cycle would reduce working capital requirements for most market participants. Lowering working capital requirements will allow participants to pass on cost savings through lower prices or invest further in innovation and expanding service offerings, the benefits of which would ultimately flow through to consumers. We consider that these benefits would have a particularly material impact for many smaller retailers, which generally have higher financing costs.

We also note that reducing working capital requirements would lower barriers to entry for the electricity retail market, which would increase competition to deliver more choice and better outcomes for consumers. We note the critical importance of smaller retailers in driving competitive outcomes for consumers in the retail electricity market and consider that measures to support retail competition are critical in ensuring ongoing competitive outcomes for consumers.

### 2.3.3 Driving market efficiency

We consider that our final rule will support overall market efficiency. We note that the 20-business day settlement cycle was developed during a period where the vast majority of meters were manually read accumulation meters, and does not reflect the most efficient approach to settlement in an environment with a higher penetration of remotely read interval meters. Faster settlement will support a more efficient use of market participant working capital, which would otherwise be held as credit support with AEMO, or capital to respond to the risk of Call Notices from AEMO.

### 2.3.4 Supporting innovation and flexibility

A shorter settlement cycle would support innovation and flexibility. Reducing the impact of the prudential regime on market participants would allow for increased productive investment, such as investment in innovative service offerings. Faster settlement of both the NEM and OTC contracts would assist market participants with cash flow, and support increased investment flexibility.

As noted in section 2.3.2, we consider that a shorter settlement cycle would reduce barriers to entry and support competition. A more competitive retail electricity market is likely to incentivise and drive innovation, as market entrants and incumbents compete for customers.

### 2.3.5 Considering implementation matters

We consider that our more preferable final rule can be implemented by both market participants and AEMO as the entity responsible for running market settlement. The inclusion of the new routine revision will likely require participants to introduce new processes and procedures. However, we consider that the likely costs of introducing the new revision do not outweigh the broader benefits to consumers from the shorter settlement cycle. Chapter 3 outlines further detail on the implementation of the rule change.

## 3 How our rule will operate

This section outlines:

- our more preferable final rule and how this was informed by stakeholder feedback and analysis from AEMO
- the impacts that a shorter settlement cycle would have on prudential requirements and relevant financial contracts, and the corresponding benefits for market participants, consumers, and the broader electricity retail market
- the likely costs of a shorter settlement cycle and how this weighs against the rule change's benefits.

### 3.1 AEMO developed an alternative option to improve on the draft rule

In our draft determination, we outlined that, following publication of the draft, AEMO would carry out a 'High Level Implementation Assessment' (HLIA). We noted that this information, and any potential cost assessment from AEMO, would be a critical input in informing our position in the final determination, and assessing whether the benefits of a shorter settlement cycle outweigh the associated costs.

As noted in section 1.2.1, on 19 September 2024, AEMO released its HLIA for stakeholder feedback. The HLIA assessed two pathways to implement the draft rule, and one alternative approach to that in the draft.<sup>10</sup>

#### 3.1.1 AEMO developed three pathways to implement a shorter settlement cycle

AEMO's HLIA provides an indicative view of how it could implement a shorter settlement cycle. In its draft HLIA, AEMO developed three possible pathways to implement a shortened cycle:

- **Pathway 1:** implements the draft rule and seeks to maintain the level of metering data quality at final settlement with intervention settlement included at the 20-week revision.
- **Pathway 2:** implements the draft rule but allows the metering data quality at final statements to reduce with exceptions to be dealt with at the 20-week revision alongside intervention settlement.
- **Pathway 3:** an alternative option to the draft rule, which shortens the settlement cycle to nine business days and introduces a new revision at 20 business days (R0) to manage exceptions and intervention settlement.

Figure 3.1 below outlines AEMO's assessment of each of the pathways, which indicates that the new alternative option (Pathway 3) has the most favourable settlement outcome. In the HLIA, AEMO stated that the alternative option could meet the AEMC's policy objectives and reduce the implementation impacts while allowing the participant's financial position to align closely from a timing perspective with that at the current final settlement.<sup>11</sup>

<sup>10</sup> AEMO, Shortening the settlement cycle: Draft high-level implementation assessment, September 2024, found [here](#).

<sup>11</sup> Ibid, pp 15.

**Figure 3.1: AEMO's assessment of the three pathways to implement a shorter settlement cycle**

Impact	People	Process	Systems	Settlement outcomes*
Pathway 1	High	High	High	Unfavourable
	<ul style="list-style-type: none"> <li>Additional resources to manage tighter timelines for exceptions</li> </ul>	<ul style="list-style-type: none"> <li>New processes to manage exceptions, assumes tighter MDP timelines</li> <li>New security deposit process</li> </ul>	<ul style="list-style-type: none"> <li>New interface to manage exceptions</li> <li>New interface to manage security deposits</li> <li>Uplift in generator estimation processes</li> </ul>	<ul style="list-style-type: none"> <li>Intervention settlements not achievable by final – assumes these move to R1 (at 20 weeks)</li> </ul>
Pathway 2	High	Low	Medium	Poor
	<ul style="list-style-type: none"> <li>Additional resources to manage exception related queries from participants</li> </ul>	<ul style="list-style-type: none"> <li>No change to exceptions process, resolved by R1</li> <li>New security deposit process</li> </ul>	<ul style="list-style-type: none"> <li>New interface to manage security deposits</li> <li>Uplift in generator estimation processes</li> </ul>	<ul style="list-style-type: none"> <li>Exceptions managed at R1 (with risk of material financial adjustments during high price periods)</li> <li>Intervention settlements not achievable by final assumes move to R1</li> </ul>
Pathway 3	Low	Low	High	Good
	<ul style="list-style-type: none"> <li>Additional resources not required to manage exceptions and related queries from participants</li> </ul>	<ul style="list-style-type: none"> <li>No change to exceptions process, resolved by R0</li> <li>New security deposit process</li> </ul>	<ul style="list-style-type: none"> <li>New interface to manage security deposits</li> <li>Changes to billing to include R0</li> <li>Uplift in generator estimation processes</li> </ul>	<ul style="list-style-type: none"> <li>Exceptions managed at R0</li> <li>Intervention settlements occur at R0</li> </ul>

Source: AEMO, *Shortening the settlement cycle: Draft high-level implementation assessment*, September 2024, pp 11-12, found [here](#).

Note: \* Settlement outcomes reflect timeliness, efficiency and quality of settlement statement amounts. Good reflects little change to current settlement outcomes, poor means potentially material changes to current settlement outcomes, unfavourable means moderate changes to settlement outcomes. The impacts are time based so by the 30-week revision all outcomes are identical.



In its submission to the draft determination, AEMO considered that the alternative option should be made instead of the draft rule, as it:

- further shortens the period between participants making margin payments to AEMO under the prudential framework and settling their hedge positions
- reduces the outstandings period that must be covered by credit support by a further 4 days
- provides comfort to participants through the R0 by minimising the risk of special revisions and ensuring participant financial position at 20 business days is on par with today's arrangements
- allows metering data corrections and intervention settlements to be managed at R0, instead of deferred to R1 at 20 weeks
- retains the preliminary statement to allow participants an opportunity to identify any material metering data errors and receive data at a time that closely aligns with prudential position updates.<sup>12</sup>

### 3.1.2 We encouraged feedback on our draft rule and AEMO's alternative option

On 10 September 2024, the AEMC held a workshop on the rule change, attended by about 100 stakeholders, where AEMO presented the new option for feedback. AEMO then held an industry briefing on 23 September, following the release of the HLIA, to seek further feedback on the pathways. About 75 stakeholders attended AEMO's briefing. In both sessions and through AEMO's HLIA process, we encouraged stakeholders to provide their feedback on the three pathways in their submissions on our draft determination.

We received 16 submissions to the draft determination, 11 of which explicitly commented on AEMO's alternative option. The rest of this chapter provides details on how the Commission has considered this feedback.

### 3.1.3 AEMO has provided the Commission with indicative costs for implementing the three pathways

Following its HLIA, AEMO provided the AEMC with indicative costs for implementing the three pathways, which are outlined in Figure 3.2 below. The indicative costs show that Pathway 3 is the lowest cost option (CAPEX + OPEX) while having a 'good' settlement outcome. We note that the costs below do not consider any possible costs for participants to implement the pathways.

**Figure 3.2: AEMO's indicative cost estimates**

	CAPEX Cost		Contingency +50%		Total Implementation Cost		OPEX 10 Years*		Settlement Outcome**
Pathway 1	\$18m	+	\$9m	=	\$27m		\$7m		Unfavourable
Pathway 2	\$11m	+	\$6m	=	\$17m		\$9m		Poor
Pathway 3	\$13m	+	\$6m	=	\$19m		\$4m		Good

Source: AEMO

Note: Estimates are based on the scope outlined in the HLIA v0.1, which reflects the prudent minimum scope required to deliver the reforms. Costs are indicative until business requirements are finalised.

Note: \* Includes 50% contingency \*\* Obtained from AEMO's HLIA, published 19 September 2024

<sup>12</sup> Submission to the draft determination: AEMO, pg. 1.



## 3.2 Our final rule implements AEMO's alternative option

Following consideration of stakeholder feedback and supporting analysis from AEMO, we have made a more preferable final rule to implement AEMO's alternative option. That is, we have made a final rule to shorten the settlement cycle to nine business days following the end of a billing week and introduce the new routine revision at 20 business days (R0). We consider that the approach proposed by AEMO strikes an effective balance between achieving the benefits of a shortened cycle and managing operational considerations. Further, as outlined in section 3.1.3, the alternative option is the lowest cost of the three pathways, with the most favourable settlement outcome.

Of those who supported the need for a shorter settlement cycle, a majority, including the proponent, agreed that AEMO's alternative option was the preferred approach. These stakeholders agreed that the approach maximises the benefits of the rule change by further reducing the credit risk and financial burden to the NEM's debtors while also ensuring meter data exceptions and intervention settlement can be addressed within the same timeframe as today's 20-business day cycle.<sup>13</sup> As noted by SA Water, the approach balances the objectives outlined by the Commission in its draft while establishing a robust and operationally efficient settlement process.<sup>14</sup>

Other stakeholders were concerned about the costs and complexities of introducing a new revision process into the settlement process.<sup>15</sup> While some noted these costs were small, the Commission has taken the potential costs on participants into consideration when assessing the merits of the rule change. Further detail on the impact of the new revision process at R0 is outlined in section 3.4.

Some stakeholders did not agree that the benefits of the rule change we outlined in the draft determination would be realised and therefore argued the Commission should carefully consider if the benefits of the rule change would outweigh the costs.<sup>16</sup> With the further information provided by AEMO on the costs of implementing the rule change, we have been able to carry out a more detailed cost benefit analysis. Participants did not provide us with any quantifiable data in their submissions on the cost impacts to them. In the absence of that information, our assessment is that the magnitude of these costs would not be material enough to outweigh the benefits. Given that the majority of submission noted that the rule change would result in lower costs for retailers, we consider that, on balance, the broader market benefits to retailers, and ultimately consumers, outweighs the implementation costs to both AEMO and participants. More information on the costs and benefits of the final rule are discussed throughout this chapter.

Table 3.1 outlines the key changes the final rule will make to the settlement cycle from the rule change. Further information on each of the proposed changes is discussed further in this chapter.

13 Submissions to the draft determination: AEMO, AGL, Bluecurrent, GloBird, Hydro Tasmania, SA Water and Zen Energy.

14 Submission to the draft determination: SA Water, pg 1.

15 Submissions to the draft determination: Energy Locals, ENGIE and Red Energy.

16 Submissions to the draft determination: EnergyAustralia, ENGIE, Origin Energy.

**Table 3.1: Changes to the settlement cycle in the NER**

Subject	Current arrangements	Final rule	Comment
<b>Preliminary statements</b> (clause 3.15.14)	AEMO must issue a preliminary statement within <b>5 business days (BDs)</b> after the end of each billing period	AEMO must issue a preliminary statement within <b>3 BDs</b> after the end of each billing period	The final rule retains the preliminary-final statement process, which gives participants an indicative amount to prepare for settlement and allows them to raise any extraordinary data issues for correction. The preliminary statement will be issued on the day meter data is received from MDPs.
<b>Final statements</b> (clause 3.15.15)	AEMO issue a final statement no later than <b>18 BDs</b> after the end of each billing period	AEMO must issue a final statement no later than <b>7 BDs</b> after the end of each billing period	The final rule further shortens the settlement cycle from that proposed in the draft rule with final statements issued 7BDs after the end of the billing week. This maximises the prudential benefits of a shorter cycle. See section 3.3 for more information.
<b>Revised statements and adjustments</b> (clause 3.15.19(b))	AEMO must give each market participant a routine revised statement approximately <b>20 weeks</b> and <b>30 weeks</b> after the relevant billing period.	AEMO must give each market participant a routine revised statement <b>20 BDs</b> , and approximately <b>20 weeks</b> and <b>30 weeks</b> after the relevant billing period.	The final rule introduces the R0 to ensure participants' financial position at 20 business days is on par with today's arrangements. See section 3.4 for more information.
<b>Disputes</b> (clause 3.15.18)	In the event of a dispute about the preliminary statement, parties must use reasonable endeavours to resolve the dispute within <b>15 BDs</b> of the end of the billing period	In the event of a dispute about the preliminary statement, parties must use reasonable endeavours to resolve the dispute within <b>15 BDs</b> of the end of the billing period	The final rule differs from the draft rule in that it makes no changes to the timing for dispute resolution. The new R0 provides an opportunity to keep the current dispute resolution time at 15 business days to allow parties to use their reasonable endeavours to resolve any disputes. See section 3.5 for more information.
<b>Payment date</b> (Chapter 10, Glossary)	The payment date is the <b>20th BD</b> after the end of a billing period, or 2 business days after receiving a final statement	The payment date is the <b>9th BD</b> after the end of a billing period, or 2 business days after receiving a final statement	The final rule moves the date of settlement to 9 business day after the end of a billing week, instead of the 11 business days proposed in the draft rule.

### 3.3 The final rule reduces the settlement cycle to nine business days

As shown in Table 3.1 above, the final rule changes the timings to several of the steps in the settlement cycle to reduce it down to nine business days. The final rule differs from our draft rule in that it reduces the settlement cycle to nine business days, rather than the 11 business days proposed in the draft and 10 business days in the proponent's rule change request.

We consider a shorter settlement cycle of nine business days would have a range of associated beneficial impacts. This section outlines the:

- impact that a shorter settlement cycle would have on prudential requirements, and the associated benefits for market participants
- impact that a shorter settlement cycle would have on relevant financial contracts, and the associated benefits for market participants
- broader benefits that a shorter settlement cycle would have for consumers, and the resilience, stability and competitiveness of the electricity retail market.

#### 3.3.1 Shortening the settlement cycle would reduce the impact of prudential requirements for market participants

A key outcome of shortening the settlement cycle is the impact on prudential requirements for market participants. Each market participant must lodge credit support with AEMO equivalent to its MCL.<sup>17</sup> The purpose of lodging this credit support is to eliminate risk to AEMO in the event that a market participant defaults and is unable to settle its outstandings.

The length of the settlement cycle is a direct input into AEMO's calculation of each market participant's MCL, under AEMO's CLP. The MCL comprises

- **The Outstandings Limit (OSL)** – the OSL is based on a seven-day billing period and an estimated 28-day (20 business day) settlement period. Accordingly, the current OSL time period is 35 days.
- **The Prudential Margin (PM)** – the PM is seven days.

Therefore,  $MCL = OSL + PM$ .<sup>18</sup>

When a participant's OSL with AEMO exceeds its trading limit (TL), AEMO can issue a Call Notice to rectify the balance. The market participant must respond to by 11am the following business day.<sup>19</sup> Call Notices are often larger and occur more frequently during periods of high price volatility.

Reducing the length of the settlement cycle would reduce the calculation of the OSL from 35 days to 19 days. This, in turn, would reduce the quantum of credit support that market participants must lodge with AEMO and free up working capital.

<sup>17</sup> Clause 3.3.5 of the NER.

<sup>18</sup> See clause 3.3.8(k) of the NER.

<sup>19</sup> Clauses 3.3.11 and 3.3.13 of the NER.

### **We received stakeholder feedback regarding the impact on the prudential regime**

In response to the draft determination, several stakeholders agreed that shortening the settlement cycle and, therefore, lowering prudential requirements would lower working capital costs for market participants.<sup>20</sup> Smaller retailers consider the current length of the settlement cycle and prudential requirements an important issue. For example, Zen Energy noted that while all participants would benefit from the change, the benefits will be most strongly felt by smaller and new entrant retailers.<sup>21</sup>

SA Water noted that the cost of credit support is predominantly incurred from the cost of providing bank guarantees to AEMO. Therefore, a lower MCL from a shorter cycle would directly reduce the size of the required bank guarantee. It notes that costs of bank guarantees are directly proportional to the size of the guarantee.<sup>22</sup>

As noted by GloBird, a retailer's failure to provide the credit support to meet a Call Notice will be deemed as a default event and, therefore, trigger the retailer of last resort (RoLR) process. This means that to avoid a RoLR, a prudent retailer must provide additional financial resources to cover any potential Call Notice amounts.<sup>23</sup>

Other stakeholders considered that, whilst in principle a shorter settlement cycle may reduce the quantum of the MCL, this would be contingent on how AEMO approaches key calculation inputs in its revised Credit Limit Procedures.<sup>24</sup> For example, AEMO multiplies each market participant's MCL by a volatility factor. Under a shorter settlement cycle the volatility factor could increase as it is calculated over a shorter number of days.

Origin Energy requested that AEMO outline any necessary amendments to the CLP and update its MCL calculator prior to the publication of the final determination.<sup>25</sup> The Commission notes that it would not be practical for AEMO to do this complex and time-consuming task prior to the publication of the final determination, particularly given AEMO must comply with the consultation procedures in the NER when amending the CLP.<sup>26</sup>

The Commission does agree that the total quantum of MCL reductions will differ for each participant, depending on a range of factors. However, in its submission to the consultation paper, AEMO provided preliminary analysis that estimates the scale of overall MCL reductions to be in the vicinity of 10 to 20 per cent (compared to the estimated 40 per cent described in the rule change request). Noting that the total MCL over 2023 was \$1.4 billion, AEMO's preliminary analysis is that the estimated credit support reductions equate to \$140 million to \$280 million.<sup>27</sup>

### **Energy Locals noted a potential negative impact on small retailers from a shorter settlement cycle**

Energy Locals, while acknowledging that retailers will benefit from a reduction in the quantum of credit support required, noted that it did not fully agree with our position that retailers will have a reduced working capital.<sup>28</sup> In their view, the increased time-cycle gap between retailers making payments to AEMO and receiving payments from their customers will increase their operating costs and ultimately put upward pressure on prices offered to customers by small retailers.<sup>29</sup>

20 Submissions to the draft determination: AEMO, AGL, Genuity, Hydro Tasmania, Red Energy and SA Water.

21 Submissions to the draft determination: GloBird Energy and Zen Energy.

22 Submission to the draft determination: SA Water.

23 Submission to the draft determination: GloBird Energy.

24 Submissions to the consultation paper: EnergyAustralia, Energy Locals, ENGIE and Origin Energy.

25 Submission to the draft determination: Origin Energy.

26 Clause 3.3.8(g) of the NER.

27 Submission to the consultation paper: AEMO.

28 Submission to the draft determination: Energy Locals.

The Commission understands that for a proportion of smaller retailers, there may be a negative impact on working capital if they use reallocations. Reallocation instruments are commonly used by market participants to manage their net position with AEMO, and respond to Call Notices.<sup>30</sup> By using reallocations, retailers have no need to provide cash to manage their liabilities on an ongoing basis, as they do not have liabilities in the wholesale settlement process i.e. reallocations effectively hedge their position inside AEMO's settlement processes.

Under a shorter settlement cycle, retailers with reallocations may need to settle with their generator two weeks earlier than today and this may require them to provide cash to the generator if they are fully hedged. The result is that the retailer could effectively lose two weeks of working capital between OTC settlement and end use consumer settlement.

However, the Commission notes that the vast majority (more than 80 per cent) of reallocations in the NEM are intra-company reallocations (for example, within a vertically integrated 'gentailer'), where typically larger participants transfer liability between their corporate entities.<sup>31</sup> More generally, many small retailers struggle to access reallocations, particularly compared to vertically-integrated market participants. This means that they may have to hold additional working capital to manage the risk of Call Notices from AEMO, which has an associated opportunity cost.

#### **We consider that there are still material benefits for most market participants**

We consider that, overall, there would still be material benefits to most market participants (particularly a majority of smaller retailers) from shortening the settlement cycle and therefore reducing the quantum of the MCL. This would occur even if a higher volatility factor means that the scale of the benefits is lower than those identified in the proponent's rule change request. We note that smaller retailers generally have a higher cost of finance relative to larger retailers (increasing the comparative cost of lodging prudentials with AEMO), as well a higher opportunity cost for their working capital. This means that the scale of benefits would appear to be more significant for these market participants.

We also note that smaller and non-vertically integrated retailers face different costs, risks, and challenges to other market participants in managing cash flow and working capital. While we note the issues raised by Energy Locals, no other retailers raised this issue, and other small retailers more generally agreed with the benefits arising from the rule change. Further, as small retailers find accessing reallocation to be difficult and costly, they will need hedge outside of the AEMO settlement process. Therefore, they will benefit from clearing their position through post-AEMO settlement with the generator (OTC) earlier. This is discussed further in section 3.3.2 below.

### **3.3.2 Shortening the settlement cycle will flow through relevant OTC hedge contracts**

Market participants often use hedge contracts, such as OTC contracts, to manage their exposure to wholesale price volatility in the NEM. OTC contracts using the ISDA Master Agreement have been standardised, so that settlement for these contracts occurs on the same day as settlement of the NEM (i.e. following the current 20 business day settlement cycle).

Under the 20-business day settlement cycle, there may be a significant time lag between when a market participant is issued a Call Notice and when OTC contracts are settled. This means that participants must fund Call Notices from existing financial resources without the benefit of any offsetting difference payments from their hedging contracts. Noting the significant consequences

29 Submission to the draft determination: Energy Locals.

30 See Clauses 3.15.11 and 3.15.11A of the NER for more detail on reallocation transactions and procedures.

31 Submissions to the consultation paper: AEMO.

of failing to promptly respond to a Call Notice (market suspension), prudent market participants may take the precaution of holding additional working capital, so they can quickly respond to any Call Notices over the settlement cycle.

Under our final rule, shortening the settlement cycle to nine business days would flow through to the settlement of relevant OTC hedge contracts. This would benefit most market participants through faster access to offsetting difference payments, and means that market participants would need to hold less working capital to cover the risk of Call Notices from AEMO.

#### **We received stakeholder feedback regarding the impact of a shorter settlement cycle on relevant financial contracts**

In its response to the draft determination, the Australian Financial Markets Association (AFMA) advised while most OTC electricity contracts settle on the same day as the NEM, the drafting of their provisions is flexible enough to accommodate changes to this date.<sup>32</sup>

GloBird Energy outlined that “the current payment cycle has a 20 business days delay between the time when a retailer must provide credit support to AEMO to satisfy the Call Notice issued after an elevated wholesale price event, which is on the next business day, and the settlement time when the retailer is getting paid from their hedge contracts, which is usually on the AEMO final statement settlement day”.<sup>33</sup>

#### **We consider that there would be material benefits due to the impact on relevant financial contracts, particularly for smaller retailers**

We consider that shortening the settlement cycle to nine business days would benefit market participants through faster settlement of OTC hedge contracts. We also note that most small retailers still cannot access the ASX, and are therefore more likely to meet their minimum risk management needs through the OTC hedge market.<sup>34</sup>

It is therefore possible that smaller retailers may benefit more significantly from this change.

We also note that shortening the financial contract settlement cycle would further decrease the credit risk that exists between financial contract parties. This would potentially lower the credit risk component of contract prices, ultimately reducing costs to consumers.

### **3.3.3 Consumers would ultimately benefit from a shorter settlement cycle**

Where smaller retailers are required to hold less working capital as part of the prudential regime, they can redirect this capital to lower prices for customers or invest in growing innovative service offerings for consumers. Reducing working capital requirements would also lower barriers to entry into the retail electricity market, increasing competition. Therefore, consumers would benefit from more choice and more competitive pressure on offers and prices.

#### **Small retailers play an important role in ensuring a robust and competitive retail electricity market**

We note the critical role that smaller retailers, in particular, play in driving value for consumers in the retail electricity market. The ACCC’s 2023 Electricity Market Inquiry Report notes that small standalone retailers and new entrants play an important role in the market, with their best offers generally competitive with the best market offers from larger retailers.<sup>35</sup>

32 Submission to the draft determination: AFMA.

33 Submission to the draft determination: GloBird Energy pg 1.

34 ACCC, Electricity Market Inquiry Report (2023).

35 ACCC, Electricity Market Inquiry Report (2023).

Lowering barriers to entry and driving competition is critical in driving better value for consumers, as new market entrants contribute to competitive outcomes through competing with existing retailers on price, product offering and innovation, and service quality. The ACCC notes that the competitive threat new entrants pose for incumbent participants may improve value for consumers and incentivise innovation.<sup>36</sup> The ACCC also notes it is critical that the conditions for competition are supported throughout the energy transition.

We consider that measures to lower working capital requirements and reduce barriers to entry are particularly important in the current context, where retail market competition has plateaued in recent years after several decades of growth. This has been compounded by a high number of retailer exits during the energy crisis in 2022 and 2023, and no new retailer entrants.<sup>37</sup>

### 3.4 The final rule introduces a new revision at 20 business days

The more preferable final rule introduces the new R0 revision at 20 business days to help address a number of issues raised by AEMO and participants in response to the draft determination. This includes changes to a number of clauses to allow AEMO to manage intervention and market suspension settlement amounts, disputes, and adjustments through the new revision, in addition to, or rather than in, a final statement.<sup>38</sup> This will ensure AEMO is able to settle the market in a timely way with sufficient data while also putting participants in the same financial position at 20 business days as they are today.

While the new revision may result in some increased costs to participants, we consider that it is an effective approach in managing the possible operational risks associated with the draft rule, while maximising the prudential benefits associated with a shorter settlement cycle.

#### 3.4.1 AEMO identified a number of risks to settlement resulting from the draft rule

As part of the HLIA process, AEMO identified that there would be impacts on meter data quality and participants' financial positions resulting from the draft rule. Implementing the draft rule, either through pathway 1 or 2, would have poor or unfavourable settlement outcomes because:

- intervention settlements would not be included in the final and would move to be included in the R1 at 20 weeks.
- meter data exceptions would also be managed at R1, which creates a risk of material financial adjustments during high price events.<sup>39</sup>

In its submission, AEMO noted that under the draft rule the days that MDPs and AEMO would currently have to resolve exceptions in between the preliminary and final statements are lost. This will result 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 the final statement (Pathway 1).<sup>40</sup>

AEMO's proposed solution to the above issue is to introduce the R0 revision, which would be used to address metering exceptions and intervention settlement. AEMO argues that the benefits of including the R0 are that:

36 Ibid, p. 22.

37 Ibid, p. 16, 22.

38 See clauses 3.12.1(a)(a1), 3.15.10C(a), 3.15.18(b) and 3.15.19(a) of the NER.

39 AEMO, HLIA - September 2024, found [here](#).

40 Submission to the draft determination: AEMO pg. 5.



- it ensures participants' financial position at 20 business days is on par with today's arrangements — this gives participants confidence that even with bringing final settlement earlier they can still resolve metering exceptions at a time comparable to today's cycle
- financial amounts, like RERT, directions and suspension compensation are processed and settled within a reasonable timeframe
- it minimises the risk of an increased number of participant enquiries or special revisions prior to R1
- there is no need to trigger higher service level requirements on MDPs and new exception management processes to bring final settlement amounts at 9 business days closer to that of the current 20 business days
- it makes effective use of existing processes for resolving metering exceptions, and processing other payments like RERT, directions and market suspension compensation.<sup>41</sup>

AEMO also noted that the new R0 preserves the preliminary to final statement process. This allows participants to receive their preliminary statement with an indicative amount to prepare for final settlement, and provides an opportunity to raise major exceptions based on updated MDM run data.<sup>42</sup> AEMO noted that the preliminary-final statement process is important for maintaining business contingency in the event of material system failure. This is particularly important for mitigating cyber security risks, where a priority is the continuity of market settlements.<sup>43</sup>

As outlined in section 3.1.3, AEMO's additional analysis on the costs of implementing the rule change show that, overall, Pathway 3 with the new revision is the lowest overall cost option with the most favourable settlement outcome.

### 3.4.2 We received stakeholder feedback on the proposed new revision

#### **Most stakeholders agreed that the R0 would be an improvement on the draft rule**

As noted in section 3.3, most stakeholders who supported a shorter settlement cycle preferred AEMO's alternative option over that of the draft rule. AGL noted that the extra revision would address the meter data quality impacts of the draft rule and provide an earlier opportunity to address intervention settlement and exceptions resolution.<sup>44</sup> Zen Energy also noted that as the market moves to higher smart meter penetration the need for data review will be increasingly reduced, meaning that retailers should be confident with managing an R0 to include intervention settlement and exceptions resolution.<sup>45</sup>

#### **Stakeholders noted the costs associated with introducing the R0**

Some stakeholders highlighted that there would be costs to participants associated with introducing a permanent R0 process.<sup>46</sup> ENGIE noted that "while AEMO's proposed 'pathway 3' may result in relatively lower implementation costs for AEMO, ENGIE reiterates its feedback that the introduction of an additional revision may impose notable implementation costs and complexities on participants".<sup>47</sup> Energy Locals also argued the additional revision will create an administrative

41 Ibid.

42 Ibid.

43 Ibid.

44 Submission to the draft determination: AGL.

45 Submissions to the draft determination: Zen Energy.

46 Submissions to the draft determination: Energy Locals, ENGIE, Red Energy, SA Water.

47 Submission to the draft determination: ENGIE, pg. 3.



burden for retailers, which may require additional resourcing, changes to retailer systems and enhancements to data capability.<sup>48</sup> Stakeholders did not quantify the possible costs associated with the new revision.

Based on the information available to them, both Zen Energy and SA Water suggested that the potential costs associated with the new revision process would be small.<sup>49</sup> However, SA Water did note that the likely impact would be an uplift in the volume of data that will need to be processed, which would bring forward investments in technology.<sup>50</sup>

### **Red Energy suggested an alternative to Pathway 3**

In its submission to the draft determination, Red Energy did not support Pathway 3 as the preferred approach. Rather, it favoured a modified Pathway 1 that would bring the current R1 forward.<sup>51</sup> Essentially this would keep the current approach of two revisions cycles, but with an earlier revision to address the problems raised by AEMO with data quality and intervention settlement.

SA Water also suggested that the Commission consider whether the current approach to revisions by issuing the R1 at 20 weeks and the R2 at 30 weeks remains efficient in the context of changing market and technological conditions.<sup>52</sup>

### **3.4.3 We consider there is still merit in keeping the revisions at 20 and 30 weeks**

We have considered Red Energy's proposal to move the current R1 forward to closer to 20 business days rather than have three revisions. However, we do not consider this feasible at this point in time, given the need for AEMO to manage manually read accumulation meter data.

Metering data from manually read interval meters and accumulation meters is collected, processed and delivered to AEMO and participants about every 12-13 weeks. AEMO subsequently processes this actual accumulation metering data to produce a profile to facilitate the settlement of the accumulation metering data in the wholesale market.

In addition, AEMO undertakes a 'true up' process to ensure that the original accumulation metering data read values that span multiple (12-13) trading weeks reconcile with the aggregate of the profiled accumulation metering data values that were allocated across the respective 12-13 trading weeks. This process results in the net system load profile being locked between weeks 15-17 to ensure that the profile shape for the respective 12-13 trading week period is fixed and is not re-calculated before the 30-week routine revision (R2).

Therefore, the R1 provides a point-in-time settlement for manually read meters. AEMO and participants use the period between R1 and R2 to focus on metering data corrections and allow retrospective participant and standing data corrections. This allows AEMO's settlement processes to account for the corrections rather than requiring participants to manage off-market settlement processes. We also note that off-market settlement is more complicated following the implementation of global settlement.

48 Submission to the draft determination: Energy Locals, pg. 1.

49 Submissions to the draft determination: SA Water and Zen Energy.

50 Submission to draft determination: SA Water.

51 Submission to the draft determination: Red Energy.

52 Submission to the draft determination: SA Water.

By removing the 20-week revision, we consider that there could be an increased risk of disputes, as participants will not have an opportunity to raise corrections with AEMO and have them adjusted for the 30-week revision.<sup>53</sup>

On this basis, we consider the R1 and R2 revisions are still important and removing one of these would likely increase risks for participants. However, the Commission notes that as we move to the increasing penetration of remotely read smart meters, the reasons for needing two revisions at 20 weeks and 30 weeks diminish. The Commission expects that as we progress to a higher penetration of smart meters in the future, AEMO will reassess the need for the three revisions, with a view to moving to a new fit-for-purpose revision process.

#### 3.4.4 We consider that there are benefits to introducing the R0 despite the costs

The Commission acknowledges that introducing the R0 will likely result in costs to participants associated with the new process and necessary system upgrades. However, given the overall benefits from the rule change to most participants and consumers, we consider that on balance there is still a reduction in costs overall. The introduction of the R0 is an effective way to balance the risks associated with the draft rule, while also promoting the benefits of a shorter cycle and ensuring a robust settlement process. We also note that while it does result in costs to participants, this approach is the lowest-cost pathway to implement a shorter settlement cycle.

### 3.5 We are not making any changes to the timings for dispute resolution

Our final rule does not make any changes to the current timing that participants and AEMO have to resolve disputes relating to preliminary statements.

Under the NER, AEMO and participants must use their reasonable endeavours to resolve any disputes regarding a preliminary statement within 15 business days following the end of the billing week.<sup>54</sup> Our draft rule condensed this timing down to seven business days following the end of the billing week. This would have meant, in practice, that participants and AEMO would have two business days between the preliminary statement and final statement to try to resolve any disputes.

In its submission to the draft determination, AGL noted that this new timing would not be sufficient for retailers to identify any issues with the data in the preliminary statement, gather necessary information and for AEMO and the retailer to use their reasonable endeavours to resolve the issue. AGL suggested that the Commission should consider keeping the current 15 business day timing.

The Commission agrees with AGL that the condensed timeline in the draft rule does not provide enough time for AEMO and retailers to resolve any disputes. The introduction of the new R0 provides an opportunity to keep the current dispute resolution time at 15 business days to provide time for parties to use their reasonable endeavours to resolve any disputes. While this would mean disputes are resolved after the final settlement, the resolved amount would be included in the new R0. Therefore, participants would be in the same financial position at 20 business days as they would be today.

<sup>53</sup> Under clause 3.15.20(c) of the NER, disputes in respect of adjusted amounts must be raised with 20 business days of the date of the final statement that are incorporated into and resolved by agreement or pursuant to the dispute resolution procedures set out in rule 8.2.

<sup>54</sup> Clause 3.15.18.

### 3.6 The Commission considers that the benefits of the rule change outweigh the costs

As noted in chapter 2, the Commission considers there is a wide range of both quantitative and qualitative benefits that a shorter settlement cycle is likely to result in. Therefore, we consider that the rule change is in the long-term interests of consumers.

The Commission considers that AEMO's analysis of the reduction in credit support of \$140 million to \$280 million based on the MCL in 2023 significantly outweighs AEMO's one off cost of \$19 million in CAPEX and ongoing OPEX of \$4 million spread over ten years to implement and manage the new process. The cost savings outlined by AEMO align with that outlined by the proponent in their rule change request. In their request, GloBird estimated a cost savings of \$10.60 per customer per year on reduced working capital funding cost, which includes an:

- average \$9.10 per customer on reduced working capital needs in meeting the potential Call Notices from AEMO under extreme market conditions
- additional \$1.50 per customer from the reduced MCL requirements.

We consider that the total quantum of MCL reductions across the NEM would outweigh the costs to participants from introducing the new R0. Participants did not provide cost estimates or indicative data to show the potential impact of adding the new revision or shortening the settlement cycle. However, as noted in section 3.4.2 some stakeholders, like SA Water and Zen Energy, noted that the costs are not likely to be substantial.

We also note that the CAPEX costs to AEMO are a one-off cost, with a low OPEX cost over ten years. The benefits of the rule change resulting from a reduction in working capital are ongoing.

Based on feedback from other small retailers regarding the positive impacts, we consider any negative impact on working capital will be limited to a very small number of retailers. Therefore, there would be overall positive impact on working capital to a wide range of participants.

Further, we consider that the use of reallocations may decline in the future with the increase in non-firm generators who are less likely to enter these types of contracts. Therefore, the negative impact on working capital resulting from the use of reallocations, while legitimate, may also be a result of the transitioning market and this rule change would only be bringing forward the impact.

Overall, the rule change will benefit a majority of retailers, and smaller retailers in particular, which typically have less access to capital and higher financing costs. Lowering working capital requirements for smaller retailers would support lower prices to customers, increased investment in service innovation, lower barriers to retail electricity market entry, and reduce the risk of retailer failure. This, in turn, would have material benefits for consumers through access to better service offerings, more choice, and more competitive pressure on retail prices.

We consider that there are material benefits to the market from this rule change, which would mean the impact on customers in the long term will be positive despite the initial CAPEX costs.

### 3.7 The final rule will commence on 9 August 2026

The final rule for the shortened settlement cycle will commence on 9 August 2026 and the transitional provisions will commence on 19 December 2024. AEMO will have from the start of billing week 33 on 9 August 2026 to the end of billing week 42 on 17 October 2026 to transition the market from the current 20-business day settlement cycle to the nine-business day settlement cycle.

### 3.7.1 There were a range of stakeholder views on the length of the implementation period

The draft transitional rules included an 18-month implementation period to allow AEMO sufficient time to review and update relevant procedures and guidelines. We also considered that 18 months would give market participants an appropriate amount of time to prepare for the new settlement process and negotiate any necessary contract changes.

GloBird argued that the alternative option would actually result in fewer system changes and, therefore, the Commission should consider a six-month implementation timeframe.<sup>55</sup> However, most other submissions agreed that 18 months would be appropriate. Stakeholders noted that it would be important for AEMO to consider aligning implementation with other process changes and suggested the timing be during a shoulder period, when prices are more likely to be stable.<sup>56</sup> AFMA also supported an 18-month implementation date to allow any necessary parties to negotiate changes to bespoke OTC contracts.<sup>57</sup>

### 3.7.2 We consider the final rule will allow sufficient time for AEMO and the market to be ready for the shorter settlement cycle

AEMO has advised the Commission that a commencement date of 9 August 2026 will provide sufficient time for the necessary system upgrades and would align with other process updates.

While we note GloBird's request for earlier implementation, we do not consider that six months provides sufficient time for AEMO to consult with stakeholders on the move to a shorter cycle, or for participants to negotiate any changes to bespoke OTC contracts.

### 3.7.3 The final rules require AEMO to consult on and publish a transition plan and calendar

The final rule includes transitional provisions that commence on 19 December 2024 that require AEMO prior to 9 August 2026 to consult on and publish a plan for how it will move the market from a 20-business day cycle to nine business days. AEMO must publish a transitional settlements calendar no later than 5 December 2025.

A transition plan will be required, in consultation with industry, to ensure:

- final statements and settlement are maintained in billing week order
- transitional and new calendars are understood so industry is well prepared
- clear timing for credit support requirements.

Under the transitional rules, the transition period will commence at the start of billing week 33 on 9 August 2026, and finish at the end of billing week 42. Therefore, the nine-day settlement cycle will be fully operational by 17 October 2026. During this transition period, market participants and/or AEMO are not prevented from making payments on the 'payment date' if a billing period for a final statement falls within the transition period and the relevant settlement date occurs after the transition period. For example, as AEMO moves toward the nine-business day settlement cycle near the end of the transition period, there may be instances where the billing week is in the transition period, but the timing for the final settlement will mean it occurs after 17 October 2026. In that scenario, AEMO and participants are still required to make any payments in accordance with clauses 3.15.16 and 3.15.17 of the NER.

<sup>55</sup> Submissions to the draft determination: GloBird Energy.

<sup>56</sup> Submissions to the draft determination: AGL, CitiPower, Powercor and United Energy, EnergyAustralia, Energy Locals, Genuity, Hydro Tasmania and Zen Energy.

<sup>57</sup> Submission to the draft determination: AFMA.

AEMO noted in its submission to the draft that an orderly transition will involve updating metering and settlements calendars and close collaboration with MDPs and market participants.<sup>58</sup> We agree that it will be important for AEMO to prepare a plan in consultation with a range of participants to ensure a smooth transition.

Therefore, the Commission considers that AEMO must consult with affected participants on the transition plan to ensure that risks are understood and mitigated in the development of the transition calendar. Affected parties should include, but may not be limited to, market participants, MDPs, the ASX, AFMA, the Australian Securities and Investment Commission (with respect to clearing licence exemption), Transmission Network Service Providers and Settlement Residue Auction participants (with respect to timing of negative settlement residues) and any other non-market participants who might be impacted.

In consulting with registered participants and interested parties, AEMO must have regard to the impact on the facilitation of settlements of payments due and the resolution of disputes in respect of transactions as the market moves from the previous settlement cycle of 20-business days to the nine-business day settlement cycle.

The final transitional rules outline that, during the transition period, AEMO must provide participants with final statements between 7 business days (in accordance with new clause 3.15.15) and 18 business days following the end of a billing period (in accordance with former clause 3.15.15).

During the transition period, AEMO may, but is not required to, provide a routine revised statement at 20 business days for intervention events and market suspension pricing schedule periods if it is not practicable to do so. Additionally, if AEMO does provide a statement at 20 business days but is not able to calculate some intervention and market suspension pricing schedule amounts in time, then it must include those amounts as an adjustment in the R1 at approximately 20 weeks.

The final transitional rules require AEMO to review and update any necessary procedures, policies, and guides to account for this rule change prior to the commencement date on 9 August 2026. In doing so, it must carry out consultation using the consultation processes specified in the NER for each of the relevant procedures. AEMO can consult on and update these necessary procedures, policies and guides as either a single process or multiple processes.

<sup>58</sup> Submission to draft determination: AEMO.

## A Rule making process

A standard rule change request includes the following stages:

- a proponent submits a rule change request
- the Commission initiates the rule change process by publishing a consultation paper and seeking stakeholder feedback
- stakeholders lodge submissions on the consultation paper and engage through other channels to make their views known to the AEMC project team
- the Commission publishes a draft determination and draft rule (if relevant)
  - stakeholders lodge submissions on the draft determination and engage through other channels to make their views known to the AEMC project team
- the Commission publishes a final determination and final rule (if relevant).

You can find more information on the rule change process on our website.<sup>59</sup>

### A.1 The proponent proposed a rule change to shorten the NEM settlement cycle

The proponent proposed changes to the NER for AEMO and market participants to settle faster following the end of each billing period. Under the proponent's proposed rule change the settlement cycle would take place over 10 business days following the end of a billing period, rather than 20 business days as is current practice.

### A.2 The proposal addressed concerns regarding the current length of the settlement cycle

The proposal addressed concerns regarding the length of the settlement cycle. The proponent considered that the current length of the settlement cycle may have unintended adverse impacts on retailers (particularly smaller retailers), and, therefore, consumers.

There is currently a 20-business day NEM settlement cycle:

- Under current arrangements, there is a 20-business day process to settle transactions on the NEM for a given 7-day 'billing period'. Under this settlement process, AEMO uses metering data to generate preliminary and then final statements for market participants, who then settle on the 20th business day following the end of a billing period.
- The 20-business day settlement cycle is supported by a first revision process at 20 weeks (R1) and a second revision process at 30 weeks (R2) following the end of a billing period. These revision processes factor in manually read accumulation meters, as well as any customer transfers between retailers.
- We note that the 20-business day settlement cycle was established in a context of a much higher rate of manually read accumulation meters, relative to today's growing penetration of remotely read interval meters across the NEM.

The proponent considered that the length of the settlement cycle may increase the impact of prudential requirements on market participants. Under AEMO's CLP, market participants must lodge credit support with AEMO equivalent to each participant's MCL. The length of the settlement cycle is a direct input into the MCL, such that a longer settlement cycle increases the quantum of

<sup>59</sup> See our website for more information on the rule change process: <https://www.aemc.gov.au/our-work/changing-energy-rules>

the MCL. The proponent considered that there is an opportunity cost to lodging this credit support, the cost of maintaining this credit support may be higher for smaller market participants, and that these credit support requirements may act as a barrier to market entry. This negatively impacts competition and consumers.

The proponent also considered that the length of the settlement cycle may impact how market participants respond to the risk of Call Notices from AEMO. The settlement of OTC hedge products is linked to the settlement cycle. Under the current 20-business day settlement cycle, there may often be a significant time lag between when market participants must respond to a Call Notice from AEMO, and when they receive the benefit of offsetting difference payments from their hedge contracts. This means that prudent market participants may often be required to hold additional working capital to respond to AEMO Call Notices during the settlement cycle.

### A.3 It proposed to do so by shortening the settlement cycle to 10 business days

The proponent made a rule change request to shorten the settlement cycle to 10 business days following the end of a billing period. The proponent considered that shortening the settlement cycle would reduce the costs of the prudential regime imposed on market participants by:

1. lowering credit support requirements for market participants
2. reducing the impact of Call Notices from AEMO, by shortening the settlement of OTC hedge contracts.

### A.4 The process to date

On 22 February 2024, the Commission published a notice advising of the initiation of the rule making process and consultation in respect of the rule change request.<sup>60</sup>

A consultation paper identifying specific issues for consultation was also published. Submissions closed on 4 April 2024. The Commission received nine submissions as part of the first round of consultation. The Commission considered all issues raised by stakeholders in submissions.

On 30 May 2024, we published a notice of an 8-week extension for the draft determination, moving the date from 13 June 2024 to 8 August 2024.<sup>61</sup>

On 8 August 2024, the Commission published a draft rule determination including a more preferable draft rule. The Commission received 16 submissions on the draft rule determination. Issues raised in submissions are discussed and responded to throughout this final rule determination. A summary of other issues raised in submissions and the Commission's response to each issue is contained throughout this final determination and in appendix E.

On 17 October 2024, we published a notice for an extension of the final determination to give the Commission additional time to address feedback from stakeholders.<sup>62</sup>

<sup>60</sup> This notice was published under section 95 of the NEL.

<sup>61</sup> This notice was published under section 107 of the NEL.

<sup>62</sup> This notice was published under section 107 of the NEL.



## B Regulatory impact analysis

The Commission has undertaken regulatory impact analysis to make its final determination.

Our regulatory impact analysis was informed by stakeholder submissions to the consultation paper and draft determination, as well as analysis from AEMO regarding possible implementation pathways and associated costs and benefits of each.

The Commission has designed its final rule to ensure the NEM settlement cycle operates effectively, whilst minimising unnecessary costs to market participants. The final rule would:

- support a more efficient settlement process that reflects the current technological environment
- lower the costs of the prudential regime for market participants and the overall quantum of credit risk in the NEM, without impacting AEMO's ability to achieve the prudential standard of 2 per cent
- lower barriers to electricity retail market entry, increasing competition and supporting more choice and competitive pricing for consumers
- allow for a more efficient allocation of market participant capital, supporting increased retailer investment in innovative service offerings for consumers.

### **We considered a range of policy options**

The Commission compared a range of viable policy options that are within our statutory powers. The Commission analysed these options:

- the rule proposed in the rule change request
- a business-as-usual scenario where we do not make a rule
- a more preferable rule reducing the settlement cycle to 11 business days
- a more preferable rule reducing the settlement cycle to nine business days with a new revision at 20 business days.

These options are assessed in Chapter 2 and 3.

### **We identified who will be affected and assessed the benefits and costs of each policy option**

The Commission's regulatory impact analysis for this rule change used qualitative and quantitative methodologies. It involved identifying the stakeholders impacted and assessing the benefits and costs of policy options. The depth of analysis was commensurate with the potential impacts. Where commensurate and feasible, the Commission has quantified the impacts. The Commission focused on the types of impacts within the scope of the NEO.

Table B.1 summarises the regulatory impact analysis the Commission carried out for this rule change. We refined the regulatory impact analysis methodology after the draft determination based on feedback from stakeholders and from the further information provided to us by AEMO on the costs of implementing the rule change. Based on this regulatory impact analysis, the Commission evaluated the primary potential costs and benefits of policy options against the assessment criteria. The Commission's determination considered the benefits of the options minus the costs.



**Table B.1: Regulatory impact analysis methodology**

Assessment criteria	Primary costs Low, medium or high –	Primary benefits Low, medium or high –	Stakeholders affected	Methodology QT = quantitative, QL = qualitative
Implementation cost and complexity	AEMO and market participant implementation (M)	Reduced working capital requirements (H)	<ul style="list-style-type: none"> <li>Market participants</li> <li>AEMO</li> <li>Financial contract providers</li> </ul>	<ul style="list-style-type: none"> <li>QT: stakeholder advice on costs of system changes and changes to financial contracts</li> <li>QL: stakeholder feedback to assess all benefits and costs to AEMO.</li> <li>QT: assessment of benefits of shorter settlement and prudential requirements (finance cost savings from lower working capital requirements and reduction in MCL)</li> <li>QL: assessment of benefits of shorter settlement and prudential requirement</li> </ul>
Driving market efficiency	Nil	<p>Lower barriers to electricity retail market entry, increasing competition and supporting more choice and competitive pricing for consumers (M)</p> <p>Allowing for a more efficient allocation of market participant capital, supporting increased retailer investment in innovative offerings for consumers. (H)</p>	All electricity customers	<ul style="list-style-type: none"> <li>QL: stakeholder feedback in impact of prudential requirements on retailers</li> <li>QL: stakeholder feedback to assess all benefits and costs of the rule change.</li> </ul>

## C Legal requirements to make a rule

This appendix sets out the relevant legal requirements under the NEL for the Commission to make a final rule determination.

### C.1 Final rule determination and final rule

In accordance with section 102 and 102A of the NEL, the Commission has made this final rule determination for a more preferable final rule in relation to the rule proposed by GloBird.

The Commission's reasons for making this final rule determination are set out in chapter 2.

A copy of the more preferable final rule is attached to and published with this final determination. Its key features are described in chapter 3.

### C.2 Power to make the rule

The Commission is satisfied that the more preferable final rule falls within the subject matter about which the Commission may make rules.

The more preferable final rule falls within section 34 of the NEL as it relates to regulating the operation of the NEM and the activities of persons participating in the national electricity market (s 34(1)(a)).

It also falls within the matters set out in Schedule 1 of the NEL as it relates to the payment of money for:

- the settlement of transactions for electricity or services purchased or supplied through the wholesale exchange operated and administered by AEMO; and
- any service provided under the Rules in respect of which the Rules require payment (item 34).

### C.3 Commission's considerations

In assessing the rule change request the Commission considered:

- its powers under the NEL to make the more preferable final rule
- the rule change request
- submissions received during first round consultation
- the Commission's analysis as to the ways in which the final rule will or is likely to better contribute to the achievement of the NEO
- the application of the final rule to the Northern Territory.

There is no relevant Ministerial Council on Energy (MCE) statement of policy principles for this rule change request.<sup>63</sup>

<sup>63</sup> Under s. 33 of the NEL and s. 73 of the NGL the AEMC must have regard to any relevant MCE statement of policy principles in making a rule. The MCE is referenced in the AEMC's governing legislation and is a legally enduring body comprising the Federal, State and Territory Ministers responsible for energy. On 1 July 2011, the MCE was amalgamated with the Ministerial Council on Mineral and Petroleum Resources. In December 2013, it became known as the Council of Australian Government (COAG) Energy Council. In May 2020, the Energy National Cabinet Reform Committee and the Energy Ministers' Meeting were established to replace the former COAG Energy Council.

## C.4 Making electricity rules in the Northern Territory

The NER, as amended from time to time, apply in the Northern Territory, subject to modifications set out in regulations made under the Northern Territory legislation adopting the NEL.<sup>64</sup> Under those regulations, only certain parts of the NER have been adopted in the Northern Territory.

As the more preferable final rule relates to parts of the NER that apply in the Northern Territory, the Commission is required to assess Northern Territory application issues, described below.

### Test for scope of “national electricity system” in the NEO

Under the NT Act, the Commission must regard the reference in the NEO to the “national electricity system” as a reference to whichever of the following the Commission considers appropriate in the circumstances having regard to the nature, scope or operation of the proposed rule:<sup>65</sup>

1. the national electricity system
2. one or more, or all, of the local electricity systems<sup>66</sup>
3. all of the electricity systems referred to above.

### Test for differential rule

Under the NT Act, the Commission may make a differential rule if it is satisfied that, having regard to any relevant MCE statement of policy principles, a differential rule will, or is likely to, better contribute to the achievement of the NEO than a uniform rule.<sup>67</sup> A differential rule is a rule that:

- varies in its term as between:
  - the national electricity systems, and
  - one or more, or all, of the local electricity systems, or
- does not have effect with respect to one or more of those systems

but is not a jurisdictional derogation, participant derogation or rule that has effect with respect to an adoptive jurisdiction for the purpose of s. 91(8) of the NEL.

A uniform rule is a rule that does not vary in its terms between the national electricity system and one or more, or all, of the local electricity systems, and has effect with respect to all of those systems.<sup>68</sup>

The Commission’s final determinations in relation to the meaning of the “national electricity system” and whether to make a uniform or differential rule are set out in chapter 2.

<sup>64</sup> These regulations under the NT Act are the National Electricity (Northern Territory) (National Uniform Legislation) (Modifications) Regulations 2016

<sup>65</sup> Clause 14A of Schedule 1 to the NT Act, inserting section 88(2a) into the NEL as it applies in the Northern Territory.

<sup>66</sup> These are specified Northern Territory systems, listed in schedule 2 of the NT Act.

<sup>67</sup> Clause 14B of Schedule 1 to the NT Act, inserting section 88AA into the NEL as it applies in the Northern Territory.

<sup>68</sup> Clause 14 of Schedule 1 to the NT Act, inserting the definitions of “differential Rule” and “uniform Rule” into section 87 of the NEL as it applies in the Northern Territory.

## D Changes between draft and final

Table D.1 below compares our final rule to the current arrangements and our draft rule.

**Table D.1: Changes to the settlement cycle in the NER between draft and final**

Subject	Current arrangements	Draft rule	Final rule
<b>Preliminary statements</b> (clause 3.15.14)	AEMO must issue a preliminary statement within <b>5 BDs</b> after the end of each billing period	AEMO must issue a preliminary statement within <b>5 BDs</b> after the end of each billing period	AEMO must issue a preliminary statement within <b>3 BDs</b> after the end of each billing period
<b>Final statements</b> (clause 3.15.15)	AEMO issue a final statement no later than <b>18 BDs</b> after the end of each billing period	AEMO must issue a final statement no later than <b>9 BDs</b> after the end of each billing period	AEMO must issue a final statement no later than <b>7 BDs</b> after the end of each billing period
<b>Disputes</b> (clause 3.15.18)	In the event of a dispute about the preliminary statement, parties must use reasonable endeavours to resolve the dispute within <b>15 BDs</b> of the end of the billing period	In the event of a dispute about the preliminary statement, parties must use reasonable endeavours to resolve the dispute within <b>7 BDs</b> of the end of the billing period	In the event of a dispute about the preliminary statement, parties must use reasonable endeavours to resolve the dispute within <b>15 BDs</b> of the end of the billing period
<b>Payment date</b> (Chapter 10, Glossary)	The payment date is the <b>20th BD</b> after the end of a billing period, or 2 business days after receiving a final statement	The payment date is the <b>11th BD</b> after the end of a billing period, or 2 business days after receiving a final statement	The payment date is the <b>9th BD</b> after the end of a billing period, or 2 business days after receiving a final statement
<b>Revised statements and adjustments</b> (clause 3.15.19(b))	AEMO must give each participant a routine revised statement approximately <b>20 weeks</b> and <b>30 weeks</b> after the relevant billing period.	No change proposed	AEMO must give each participant a routine revised statement <b>20 BDs</b> , and approximately <b>20 weeks</b> and <b>30 weeks</b> after the relevant billing period.

## E Summary of other issues raised in submissions

Table E.1: Summary of other issues raised in submissions

Stakeholder	Issue	Response
AGL	AGL noted that a shorter of the settlement cycle may have implications for the RoLR mechanism by reducing the time between electricity trades and financial settlements, which could increase cash flow pressures on retailers. However, it also noted that it could also facilitate quicker financial resolution following a retailer failure, thereby supporting more rapid market stabilisation.	Overall, the rule change will benefit a majority of retailers, and small retailers in particular who typically have less access to capital and higher financing costs. Lowering working capital requirements for smaller retailers would support increased investment in service innovation, lower barriers to retail electricity market entry, and reduce the risk of retailer failure.
Yurika	Yurika noted its concern that the rule change would place unnecessary pressure on MDPs to finalise metering data.	The Commission notes that with the introduction of the R0, there should not be an increased pressure for MDPs to address meter data issues by the final statement.

## Abbreviations and defined terms

ACCC	Australian Competition and Consumer Commission
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AFMA	Australian Financial Markets Association
BD	Business day
CLP	Credit Limit Procedures
Commission	See AEMC
HLIA	High-level Implementation Assessment
ISDA	International Swaps and Derivatives Association
MCL	Maximum Credit Limit
MDP	Meter data provider
NEL	National Electricity Law
NEO	National Electricity Objective
NER	National Electricity Rules
NT Act	<i>National Electricity (Northern Territory) (National Uniform Legislation) Act 2015</i>
OSL	Outstandings limit
OTC	Over-the-counter
PM	Prudential Margin
Proponent	The individual / organisation who submitted the rule change request to the Commission
R0	Routine revised statement at 20 business days
R1	Routine revised statement at approximately 20 business weeks
R2	Routine revised statement at approximately 30 business weeks
RoLR	Retailer of Last Resort
TL	Trading Limit