



4 April 2024

Ms. Anne Collyer
Chair
Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

Shortening the Settlement Cycle

Blue NRG welcomes the opportunity to provide feedback on the *Shortening the Settlement Cycle* rule change proposal.

Blue NRG is an Australian owned business energy retailer based in Melbourne, Victoria. Established in 2012, we are a small electricity retailer specialising in providing energy plans and tailored energy solutions to businesses in Victoria, New South Wales, South Australia, and Queensland.

As a small retailer like the proponent, Blue NRG shares the view that a shortened settlement cycle would reduce the costs of prudential requirements imposed on market participants. This, in turn, will ultimately lead to improved retail competition and greater investment in consumer innovation. We assert that the benefits of a shortened settlement cycle would further support one of the AEMC objectives, the National Energy Retail Objective (NERO), by promoting efficient investment in, and efficient operation and use of, energy services for the long-term interests of consumers of energy with respect to price, quality, safety, reliability, and security of supply of energy.

Please see our responses to the AEMC consultation paper questions below.

For any questions regarding this submission, please contact Shaun Hooper (shaun.hooper@bluenrg.com.au).

Yours Sincerely,

Shaun Hooper

Shaun Hooper
Head of Energy Markets



Question	Answer
<p>LENGTH OF THE NEM SETTLEMENT CYCLE</p> <p>Question 1: Do you agree that the current length of the settlement cycle negatively impacts market participants?</p> <ul style="list-style-type: none"> • Do you agree with the proponent that the length of the settlement cycle is causing the issues raised? Or are there other causes that should be considered? • The proponent has focused on impacts on market customers. What are the impacts on other classes of market participants? • Is this a material issue? 	<p>Blue NRG agrees that the current length of the settlement cycle places a higher burden on smaller retailers by requiring them to tie up working capital which could otherwise be invested in customer service innovations.</p> <p>Prudential requirements are a material issue for small retailers as access to reallocations from generators and other counterparties is significantly less available than they once may have been. Larger retailers with generation may not have the same issue. Reducing the settlement cycle would naturally reduce the prudential requirements which would potentially increase market competitiveness by removing barriers to entry and competition.</p> <p>Generators themselves would benefit from a reduced settlement cycle as they would receive monies earlier.</p> <p>Under a shorter cycle, AEMO would reduce the total value of securities held and hence reduce their financial exposure due to retail failures.</p>
<p>COSTS AND BENEFITS OF SHORTENING THE SETTLEMENT CYCLE</p> <p>Question 2: What are your estimated costs and benefits of shortening the NEM settlement cycle? Please provide supporting evidence/analysis.</p> <ul style="list-style-type: none"> • What are the financial and non-financial benefits of shortening the settlement cycle? 	<p>Reducing the final statement from being due 20 business days after the settlement week to 10 business days, reduces the average outstanding by 40% (5 weeks to 3 weeks). This would automatically reduce the quantum of potential call notices issued by AEMO.</p> <p>As smaller retailers do not have access to readily available bank guarantees and reallocations, less working capital would be required to be put aside, which would lessen the likelihood of retailer default.</p>



Question	Answer
<ul style="list-style-type: none"> The proponent has considered benefits for retailers and consumers - what are the potential impacts on other classes of market participants and stakeholders? 	<p>Consumers would ultimately benefit through the reduced cost of capital, greater retailer competition and retailer stability.</p>
<p>CHANGES TO PRUDENTIAL REQUIREMENTS</p> <p>Question 3: What are your views on amending the prudential requirements (including Credit Limit Procedures) to reflect a shorter settlement cycle?</p> <ul style="list-style-type: none"> Are there potential risks in amending the prudential requirements to reflect a shorter settlement cycle? For example, could such a change impact the ability of AEMO to achieve the prudential standard? 	<p>We support the proponents' views on the amendments to the prudential requirements. Updating the Credit Limit Procedures to reflect the shortened cycle would be an essential part of reducing the working capital component of smaller retailers.</p> <p>We believe that amending the prudential requirements would not increase the risk to AEMO's ability to achieve the prudential standard.</p>
<p>CHANGES TO THE SETTLEMENT TIMETABLE FOR FINANCIAL CONTRACTS</p> <p>Question 4: What are your views on amending the settlement timetables for relevant financial contracts to align with any changes to the NEM settlement cycle?</p> <ul style="list-style-type: none"> How would a change to the NEM settlement cycle impact relevant financial contracts? Noting that some contracts are contracted up to three years out, are there implications for changing the settlement timetable for contracts already in place? 	<p>As the proponent made note of, most relevant financial contracts are standardised such that contract payments are made in alignment with a settlement date, that under the National Electricity Rules, a market customer would be obliged to make a payment in respect of electricity bought.</p> <p>Blue NRG believes that a change in AEMO settlement cycle would automatically mean a change in the financial contract settlement cycle. This would further decrease the credit risk that exists between financial contract parties as the time to settlement has been reduced. This would have the added benefit of potentially lowering the credit risk component of contract prices, increasing competition, and ultimately reducing costs to consumers.</p> <p>Again, as the proponent pointed out, in the event of a Call notice (due to a high price event) a retailer is required to fund this with existing cash reserves immediately. A shortened cycle</p>



Question	Answer
	would reduce the amount of time a participant would need to fund this, as the settlement cycle for the offset financial contract would correspond with the AEMO settlement date.
<p>IMPLEMENTATION ISSUES AND CONSIDERATIONS</p> <p>Question 5: What are the potential implementation issues and considerations in shortening the settlement cycle?</p> <ul style="list-style-type: none"> • Are there other risks and opportunities in shortening the settlement cycle that should be considered? 	<p>Given the nature of the proposed rule change, we do not believe there would be significant operational challenges in the settlement process.</p>
<p>OPTIMAL LENGTH OF THE SETTLEMENT CYCLE</p> <p>Question 6: What, in your view, is the optimal length of the settlement cycle? Provide a rationale supporting your answer.</p> <ul style="list-style-type: none"> • Are there any constraints (e.g. technological constraints), that would prevent moving to a particular settlement cycle? For example, is a 1-day settlement cycle feasible? • The settlement cycle comprises a number of different stages (e.g. preliminary statement, final statements, dispute period, etc.). Could certain stages be adjusted more or less than other stages? • Are there trade-offs when considering different settlement lengths? For example, does a shorter settlement cycle lead to an increased likelihood of disputes and subsequent readjustments? 	<p>Blue NRG supports the proponents' proposed settlement timetable; Preliminary statement to be issued after 3 business days and Final statement after 8 business days with payment two days after that.</p> <p>Blue NRG has observed that the usual difference in both net energy and net dollar cost between the Preliminary statement and Final statement is generally very low and non-material. We believe this is an outcome of the uptake of smart meters in non-Victorian states, which will only increase over time (Victoria has near 100% smart meters that are read daily, so there is negligible difference between Preliminary and Final statement).</p> <p>An alternative settlement cycle proposal could be to remove the current Preliminary statement (issued 5 business days after the week) and change the current Final statement cycle to be issued 5 business days after the settlement week (with payment due two days later). This essentially makes the current Preliminary statement the Final statement. As mentioned, there is usually only a minor variance. The current 4-week statement (Final) would either be removed altogether or could be made a 4-week revision statement (like the 20 and 30-week revision statements).</p>



Question	Answer
<p>Question 7: Assessment framework</p> <p>Do you agree with the proposed assessment criteria? Are there additional criteria that the Commission should consider, or criteria included here that are not relevant?</p>	<p>Ultimately, the assessment of a shortened settlement cycle is the increased retailer competition, which can only serve to lower consumer costs.</p>