10 October 2024

Australian Energy Market Commission

Submitted online

Shortening the Settlement Cycle

The Australian Financial Markets Association (AFMA) is responding to the Australian Energy Market Commission's (AEMC) draft determination for the Shortening the Settlement Cycle Rule Change, including AEMO's proposed modifications to the option presented in the draft determination. Our response focuses on the technical impact of the changes on financial market contracts, rather than commenting on the merits of the proposal.

AFMA is the leading financial markets industry association promoting efficiency, integrity and professionalism in Australia's financial markets, including the capital, credit, derivatives, foreign exchange, energy, carbon, and other specialist markets. Our membership base is comprised of over 130 of Australia's leading financial market participants, including many energy firms who are key participants in the NEM.

Key Points

- **Financial market documentation can accommodate the proposed changes**
- **There should be an 18-month implementation period to allow for any necessary amendments to non-standard contracts**

AEMO's proposed approach contains two major changes from the previous version:

- moving to settlement on week plus 9 business days rather than the current 20
- introducing additional settlement revisions on week plus 20 business days

This submission deals with the technical impacts of these changes for OTC documentation and does not comment on any changes to the economics of the contracts.

1. Settlement date

As discussed in our previous submission, 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. We therefore do not anticipate that that many parties will have to amend their agreements to accommodate a shorter date, be that 9 business days or any other number of days.

2. Settlement revisions

The original rule change did not propose changes to the settlement revisions calendar, so our previous submission did not deal with the impact on financial contracts. The majority of standard OTC electricity derivatives executed using the AFMA Electricity Addendum are for fixed volumes and therefore do not rely on AEMO's settlement allocations, and as a result, are not affected by changes to the revisions framework. However, non-standard contracts including load-following swaps and variable volume Power Purchase Agreements (PPAs) do rely on AEMO's allocation process and changes to the revisions process will potentially have an impact on them.

It should be noted that these types of agreements are non-standard contracts that are typically executed under bespoke agreements rather than AFMA template agreements, and as a result the

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impact of any regulatory changes may vary depending on the terms of individual agreements. That said, having consulted a number of market participants, we are comfortable making the following observations about how these arrangements are typically structured.

Revisions are very important for load-following swaps as they are typically used by small retailers to hedge mass market loads that are subject to substantial revisions. We understand that typically these contracts settle in line with the AEMO revision timetable, with parties making adjustment payments as a result of the revisions. Load-following contracts may be able to function without amendment, but we anticipate parties will probably want to amend them to allow for the new 20 business day revisions.

Revisions play a less important role for PPAs as, while settlement is based on the actual output of the generator, the high quality of generator meter data means that revisions are less material than for load-following swaps. Our understanding is that the market uses a range of bespoke documents for PPAs with a minority adopting the AEMO weekly settlement timetable and the majority settling monthly on a separate timetable. PPAs do provide for revisions but we understand that typically both parties to a PPA will have access to the generator's meter data directly from the meter data provider and therefore have access to more or less live revisions data, rather than being dependent on AEMO's settlement revisions as parties with mass market retail loads are. As a result, we understand that while PPAs do provide for adjustments based on revisions to meter data these adjustments are not typically tied to AEMO's revisions calendar. We therefore anticipate that introducing additional revisions is likely to have limited impact on the majority of PPAs.

AFMA considers that the AEMC's proposed 18-month transition period is appropriate to allow participants to implement the proposed changes, but we encourage the AEMC to consult with AEMO on the timeframe for the changes to ensure they have capacity to implement them.

AFMA Recommendations

i. AFMA supports the AEMC's proposal for an 18-month transition period to allow the market to accommodate the changes, particularly for non-standard contracts.

AFMA would welcome the opportunity to discuss this submission further. Please contact me at lgamble@afma.com.au or 02 9776 7994.

Yours sincerely,

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