

# Ministerial Council on Energy

## Energy Market Reform - Bulletin No. 160

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### Financial Markets Working Group

#### **Release of papers on a Shorter NEM Settlement Cycle and a Survey of Second Tier Retailers**

The Financial Markets Working Group (FMWG), comprising principally of industry-based experts, was established by the Ministerial Council on Energy (MCE) Standing Committee of Officials (SCO) in February 2008, to consider options for reducing prudential costs on National Electricity Market (NEM) participants.

The FMWG is releasing two papers; a survey of second-tier retailers, and an analysis of the desirability and feasibility of introducing a shorter settlement cycle in the current prudential environment.

In delivering this work, the FMWG has completed its key tasks. The MCE SCO wishes to extend its thanks to all those who have participated in the work of this group and the development of its advice.

These papers, and any feedback, will be used as input into related work streams, including:

- the Australian Energy Market Operator (AEMO) review of the readiness of the energy financial markets for the commencement of the Carbon Pollution Reduction Scheme (CPRS) and expanded Renewable Energy Target;
- the Australian Energy Market Commission (AEMC) review of the Energy Markets Frameworks in light of climate change policies, and review into the role of hedging contracts in the existing NEM prudential framework; and
- the MCE's development of the National Energy Customer Framework, which proposes a national regime for credit support between retailers and distributors.

Any feedback on the two papers will be provided directly to AEMO or the AEMC as appropriate, for consideration in the above reviews.

This work has been produced independently of the MCE, and should not be taken to reflect the views of the MCE or SCO.

#### Survey of Second Tier Retailers

To develop a broad understanding of the prudential risks evident in the NEM, a survey of twelve small retailers was conducted between June and September 2008. Small, second-tier retailers were chosen as the FMWG considered that they may have greater exposure to prudential requirements due to their lack of a large, long term captive customer base. The FMWG recognises that the views and issues raised in this document are those of a sub-set of NEM market participants.

### Shorter NEM Settlement Cycle

A major determinant for the level of prudential requirements in the NEM is that the market effectively requires protection against default for up to six weeks of accrued expenses, as the spot market is settled approximately four weeks after the end of each weekly billing period. The FMWG has developed a paper exploring the mechanics of using a shorter spot market settlement cycle to assist in reducing this risk and the associated prudential requirement.

### Submissions

SCO welcomes submissions on any aspects of the attached papers in **written form** by **close of business on Friday 14 August 2009** to the MCE Secretariat address below. Any submissions received will be provided to AEMO and/or AEMC.

Attn: Manager, MCE Secretariat

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Those making written submissions should indicate if any part of their submission is to be considered confidential. Where it is considered confidential, please indicate whether or not the MCE Secretariat has permission to pass the submission to AEMO and/or the AEMC on a confidential basis. Those submissions that are not marked as confidential will be published on the MCE website.

MCE Standing Committee of Officials  
17 July 2009