ESEM Contract Co-Design Update

22 October 2026

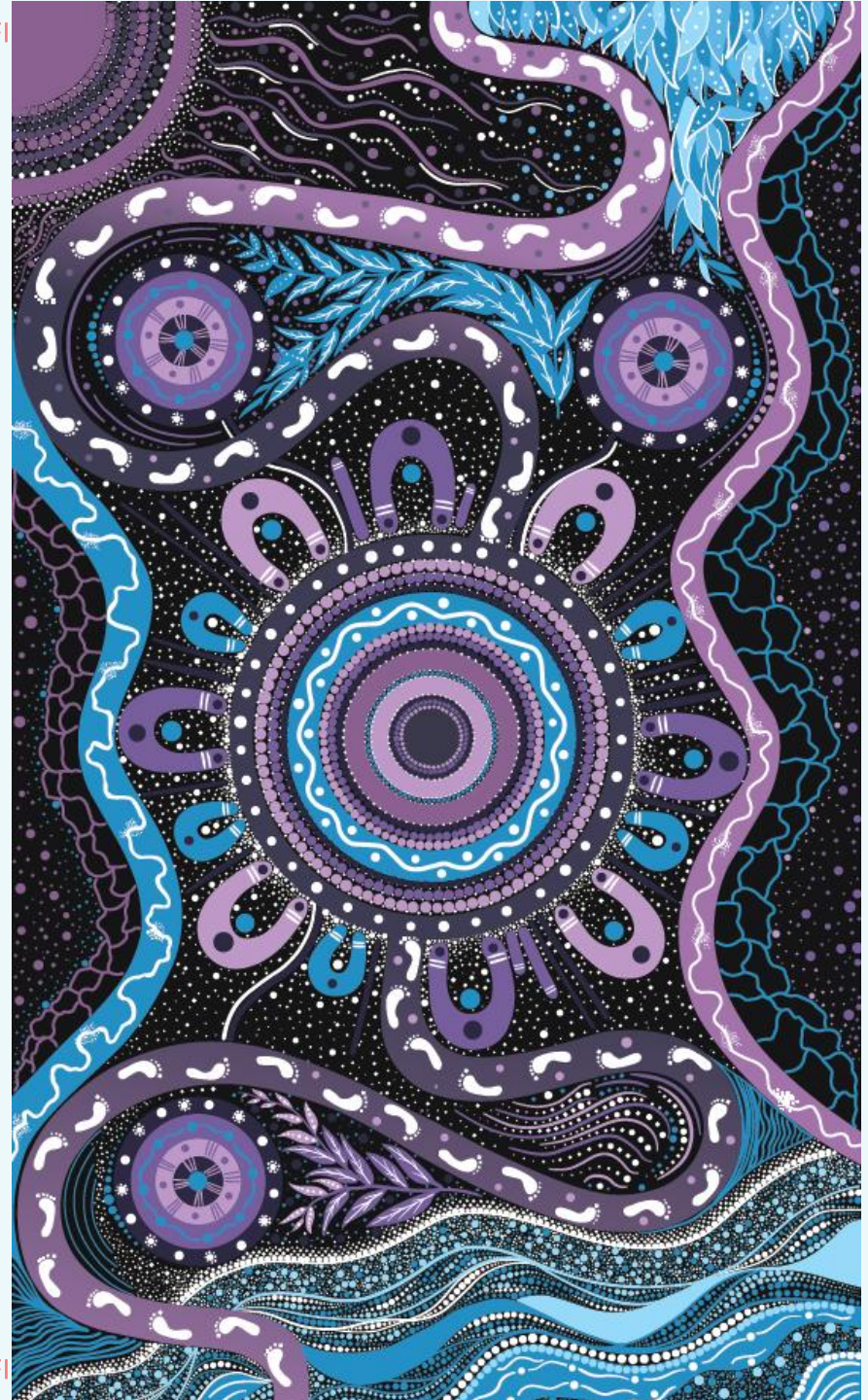


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We acknowledge the Traditional Custodians of the land, seas and waters across Australia. We honour the wisdom of Aboriginal and Torres Strait Islander Elders past and present and embrace future generations.

We acknowledge that, wherever we work, we do so on Aboriginal and Torres Strait Islander lands. We pay respect to the world's oldest continuing culture and First Nations peoples' deep and continuing connection to Country; and hope that our work can benefit both people and Country.

AEMO Group is proud to have delivered its first Reconciliation Action Plan in May 2024. '*Journey of unity: AEMO's Reconciliation Path*' was created by Wiradjuri artist Lani Balzan to visually narrate our ongoing journey towards reconciliation – a collaborative endeavour that honours First Nations cultures, fosters mutual understanding, and paves the way for a brighter, more inclusive future.



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NEM REVIEW Implementation Update



ESEM Implementation & Delivery Timelines

We are here



Phase 1: Refining policy design

Converting the Panel's policy design into drafting instructions

- ✓ Finalising enough of the policy design to settle drafting instructions
- ✓ Analysis to support impact assessments
- ✓ Regular engagement with industry, jurisdictions and market bodies
- ✓ Start contract co-design process

Phase 2: Authorising and enabling

Establishing the legal and institutional foundations required to proceed

- Draft legislation and rules, consultation (exposure draft), adjustments post-consultation.
- Establish what's needed for planning, tendering, contract management etc.
- Continue work on ESEM administrator roles
- Publish impact analysis
- Passage through SA Parliament
- Finalise contracts

Phase 3: Mobilisation

Standing up the ESEM Administrator and moving into active delivery

- Initial Minister-made rules
- First tender, first planning report
- Finalising ESEM governance arrangements

These slides represent a point in time status of the implementation of the NEM Review recommendations and will shift as the program progresses.

Consultation Summary and Next Steps

The consultation package contained:

1. **Consultation paper**
2. **Draft Bill** and **Rules**

Engagement during the 4-week consultation window included:

- **3 x industry webinars** to:
  - Outline the proposed approach
  - Explain key issues and questions
  - Provide opportunities for Q&A
- **Targeted stakeholder discussions** to provide further detail or clarification

Consultation timeline		Key activity
2026	Mid-Sept	• **Energy and Climate Ministerial Council (ECMC) –** authority to release the consultation package
	September/October	• **NEL + first pass NER consultation (4 weeks)**
	October/November	• Consider feedback and update NEL amendment.
	December	• **ECMC** – seeking agreement to implement the ESEM and progress NEL changes through SA Parliament in early 2027.
2027	Q1	• Continued work to inform second pass NER consultation. • **NER Second-pass consultation** – aiming for a longer consultation period (6-8 weeks)

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Contract Design Update



Recap - Products Overview

Bulk Energy

Regional Reference PPA

A swap based on the dispatched volume and price of the regional Reference Fleet that provides buyers with a hedge based on a regional technology (e.g. wind or solar) shape and renewable sellers with long-term price certainty.

Shaping

Dynamic Time of Day Block Spread Swap

A dynamically set swap that contracts the difference between daily low-price charge periods and high-price discharge periods (determined by day-ahead residual demand), providing buyers with a hedge against intra-day volatility and sellers with long-term revenue certainty.

Firming

$600 Cap Contract

A cap with a $600 strike price that provides buyers with insurance against high-priced events and sellers with long-term, stable cash-flows and ability to retain some merchant revenues under the cap.

Consultation Overview

Consultation

- Consultation open from 14 September – 2 October.
- Sought targeted feedback on preferred contract structures across Bulk Energy, Shaping, and Firming.
- Briefings held with a range of stakeholders, representing buyers, sellers, and integrated retailers.

Submissions

- 42 submissions received.[1]
- Large volume of responses from a range of sellers.
- Responses also received from buyers and organisations that could be bother buyers and sellers of ESEM contracts (i.e., gentailers).
- Other respondents included consultants and representative groups.

[1] Submission count at 4pm, 6/10/26

Overarching Feedback

Achievement of the Terms of Reference	• The structures could achieve good alignment to the ToR, subject to resolution of some concerns:
	  ○ Bankability (FM the greatest concern)
	  ○ Technology neutrality (incentives for > 8hr capable assets)
	  ○ Operationalisation of the shaping product
	  ○ Usefulness of the products to buyers

Interaction with the Market Making Obligation (MMO)	• **Bulk energy:** General support, however, suitability contingent on index design. • **Shaping**: Dynamic block setting approach increases the complexity to value and quote the product. • **Firming**: General support, however, possible challenges for independent storage projects to defend the position which could impact sellers.

Effectiveness for buyers	• Moderate support of proposed product suite with caveats:
	  ○ Some concerns regarding retailer/user utility and whether large users will be unable to manage financial and load-following risks.
	  ○ Noted that secondary markets and intermediaries will continue to provide an important function in re-packaging the ESEM products into alternative structures that could address a broad range of buyer needs.

Feedback on Contract Structures

Bulk Energy

- **Well supported design** and preferred to other options
- The proposed **$600 price cap** (aligned to the strike of the firming product) **was strongly supported by sellers but is a point of contention for buyers**
- Almost unanimous support for a negative price provision, however, **no consensus between a price floor or volume knock-out** mechanism.
- Several stakeholders requested **further clarity on index design** and how the RRPPA would **apply to hybrid projects and off-shore wind**.

Shaping

- General support for the spread swap concept, however, **concerns around the proposed dynamic block setting approach**.
- Several **concerns regarding the value of the product as a hedge to manage loads**, given the variability of the charge/discharge periods and day ahead nomination approach.
- Multiple noted that the value of the product was **reliant on the accuracy of the residual demand forecast**.

Firming

- General alignment that a cap product is suitable for incentivising firming assets.
- Some concerns raised that **the service as defined may not provide a strong incentive for longer duration firming assets** which may need to be addressed through special tenders.
- **General support for the strike price being aligned with the APC from sellers**, however, **some concerns from buyers about implications of $600 strike.**

- **FM was raised by many respondents as a key outstanding design issue** across all three products. General consensus that sellers will need relief from some FM events but this must happen outside the contracts to ensure they remain fungible.
- **General support for weekly settlement** with some further detail requested around settlement calendar and how changes could be managed efficiently.

WS5 Key Items - RRPPA

Key Issue	Feedback Received	WS5 Outcomes
Negative Price Provision	• Strong support for negative price provision. • Mixed views between floor or knock-out.	• Preferred approach is to proceed with a $0 price floor subject to further discussions to resolve concerns regarding Reference Fleet volumes below negative price intervals.
Price Cap Provision	• Strong views from investment sector that a price cap is required for bankability. • Sellers noted may reduce value of the product and drive requirements for firming.	• Preferred position was for a price cap to remain in the contract structure, setting of the price cap to be confirmed to balance buyer and seller needs.
Treatment of Hybrid Projects in the Index	• Stakeholders requested clarity on treatment oy hybrid projects.	• The WG agreed that a hybrid project could be included in the Reference Fleet, where the dispatched output of the variable renewable energy (VRE) component can be identified separately in AEMO 5-minute dispatch data. • This is anticipated to require separate dispatchable unit identifiers (DUIDs) for VRE and storage components. • A hybrid project that is not included in the Reference Fleet could still bid for a RRPPA contract; its generation would just not impact the index.
Reference Fleet: Definition of Operational Projects (entry, exits and outages)	• Stakeholders requested further detail on index design.	• The WG noted issues raised and agreed that principles to address new entrants, asset retirements, prolonged outages, and changes in asset availability, should be considered in detail long form drafting, with a design intention to maintain index stability and avoid unintended transfers of basis risk.

WS5 Key Items – Shaping & Firming

Contract Structure	Key Issue	Feedback Received	WS5 Outcomes
Shaping	**Block Setting Approach**	• Forecasting accuracy • Complexity of approach and value as a hedging product	The WG agreed to retain the proposed dynamic block setting approach on the basis that the approach is complimentary to the RRPPA design and captures significant additional value to fixed blocks.
	Daily Shaping Period	• Current approach would require a combined forecast using PD and ST-PASA data. • Other periods may align more closely with existing market processes.	The WG agreed to change the preferred position for the Daily Shaping Period to either 16:05-16:00 (with nominations at 13:00 on the same calendar day) OR 04:05-04:00 (with nominations at 16:00 the day prior) subject to final analysis of value and accuracy of nomination method.
Firming	**Strike Price**	• $600 aligns with current cost basis, however, creates buyer exposure between (previously defended) $300 - $600.	The WG agreed to retain the $600 strike price, noting the concerns raised by industry regarding increasing costs (both entry and operational costs for fuel-based assets) and the potential for short run marginal costs to reach or exceed the $300 cap strike price during the contract tenor. $300 caps will also still exist to provide protection below $600.

Key Areas of Focus Ahead of Final Report

1. Bulk Energy	• Reference Index performance during negative price period. • Independent bankability analysis. • Price Cap setting.
2. Shaping	• Daily Shaping Period and nomination time.
3. Firming	• N/A
General	• Customer load hedging analysis.

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Next steps

The Working Group will provide final recommendations for contract structures by the end of 2026.

Indicative Timeline (subject to change)

	Oct		Nov				Dec			
W/C	**19/10**	**26/10**	**2/11**	**9/11**	**16/11**	**23/11**	**30/11**	**7/12**	**14/12**	**21/12**
*Workshop 5 (**TBC**)*										
Detailed design and analysis										
Stage 1 Final Report										
Government decision making and planning										

CY27: Further design and long form drafting

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