



Why fungible contracts?

A core feature of the NEM Review's recommendation to establish an Electricity Services Entry Mechanism (ESEM) was that it should use of standardised, fungible contracts. This paper summarises the benefits of using fungible contracts for the ESEM and for the electricity market.

Risk Transfer

The ESEM is designed to support significant amounts of new investment in electricity generation, and the NEM Review considered it critical that the ESEM Administrator (ESEMA) recycle that generation back into the market. Recycling contracts back into the market benefits consumers by reducing the financial exposure of the ESEMA and benefits retailers by ensuring the availability of hedging contracts. Fungible contracts enable these benefits because they are tradeable and appealing to potential buyers.

Price Discovery

By using standardised contracts, the ESEM will contribute to producing transparent forward prices. The NEM Review identified price discovery as a precondition of an effective derivatives market, requiring "transparent price signals that reflect market conditions and future expectations." (NEM Review, 2025). A clear, reliable forward price curve allows the energy only system to better coordinate decisions.

Competitive and Transparent ESEM Auctions

The NEM Review recommended that ESEM contract bids be compared via a price-based assessment and considered that this would minimise the need for discretion of the ESEMA and promote objective decision-making. This recommendation is possible because the ESEMA is designed to use standardised, fungible contracts with comparable commencement dates and durations. By minimising the need for a complex assessment processes proponents will benefit from more frequent opportunities for projects to participate in a procurement process when ready.

More information

To learn more about the NEM wholesale market settings review, go to.

<https://www.dcceew.gov.au/energy/markets/nem-wms-review>

To learn more about the industry-led electricity contract co-design, go to

<https://asl.org.au/tenders/industry-led-electricity-contract-co-design>

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