

ESEM Contract Co-Design Consultation feedback

Submission details	
Organisation	BlueScope Steel
Date submitted	2 October 2026

Question	Response
Q1. Is the proposed contract structure suitable for a range of bulk energy technologies?	The proposed RRPPA structure appears broadly suitable for established variable renewable generation such as wind and solar. Its application to hybrid, dispatchable (e.g. geothermal or biomass) and emerging technologies may be more challenging and should be further assessed, with flexibility retained to develop alternative contract structures where required. In particular, the reference-based methodology may be difficult to apply where there is not a sufficiently established and representative portfolio of projects to form a robust Reference Fleet.
Q2. Does a cap on spot price exposure aligned to the strike price of the firming product (e.g. \$600/MWh) appropriately balance risks for sellers and buyers?	We recognise that the \$600 cap on spot price exposure is intended to balance seller bankability while delivering a reduced bulk energy product price to buyers. However, despite having an RRPPA in place, buyers will remain exposed to spot prices above \$600/MWh across the RRPPA notional volume. In parallel, sellers are protected from high spot price events where their generation is below the Reference Production Index (RPI), while retaining the benefit where their generation exceeds the RPI. To fully manage this exposure, most buyers would need to separately purchase the separate \$600/MWh cap product. However, the volume mismatch between the flat cap product and the shaped RRPPA may result in over-hedging and additional cost for buyers. This does not appear to provide an appropriate balance of risk between sellers and buyers, although ultimately the combined price of the RRPPA and cap products will determine whether the arrangement is workable in practice. Removing the \$600/MWh cap from the RRPPA may provide a more efficient allocation of risk and warrants further consideration, noting that any increase in the bulk energy product price may be offset by lower

	risk-management costs and reduced complexity for buyers.
Q3. Is a negative price provision required for the proposed contract, noting it is settled against the Reference Fleet's performance and LGCs/REGOs are not included in the swap? If so, is a volume knock-out (no settlement during negative price periods) or a \$0 price floor more preferable?	A negative price provision is appropriate as it will incentivise efficient dispatch. We do not have a strong preference between a volume knock-out or \$0 price floor, however the \$0 price floor may be simpler to apply as it preserves the Reference Fleet volume profile.
Q4. Does the proposed design of the Reference Production Index appropriately balance risks for sellers (primarily basis risk) and buyers (long-term value of the product)?	Appropriately balanced <i>Additional comment:</i> The Reference Production Index appears to be a reasonable approach to creating a standardised and fungible product while reducing exposure to individual-project performance. We recognise that the design includes mechanisms to manage changes to the Reference Fleet over time; transparent index governance, representative fleet composition and regular review will be important to manage basis risk and maintain the product's long-term value to both sellers and buyers. Further, the provision of RPI profile forecasts would inform valuation, structuring and bankability for both the buyer and seller.
Q5. Does the proposed approach to determining charge/discharge periods on a day ahead basis, using residual demand calculation, appropriately balance operational risks/simplicity with long-term value?	The dynamic residual-demand approach appears reasonable and should provide a more adaptable hedge than fixed time blocks as market conditions change. However, its value to buyers will depend on demonstrating that the nominated charge and discharge periods provide an effective hedge against realised intra-day price spreads, without introducing undue operational complexity.
Q6. Does the use of AEMO's forecast data to determine shaping periods result	While the use of AEMO's forecast data to determine shaping periods appears to be the most appropriate

in any material risks to the useability of this contract over the long-term?	methodology to determine shaping periods, there is a risk of forecast inaccuracy which could impact value for buyers across the immediate and longer term. Forecast inaccuracy could occur for a number of reasons; model assumptions can quickly become outdated as supply/demand profiles change or emerging products such as this come to market that drive unanticipated intra-day price shape outcomes. It will be important to implement regular and transparent review cycles to ensure AEMO's forecast performance remains fit-for-purpose. If there is evidence that the nominated periods consistently misalign with high-low price spreads, action must be taken to improve forecasting performance.
Q7. Does the proposed approach of determining nominations at 4pm on a day ahead basis pose any material operational risks?	For buyers that actively monitor and respond to spot market exposure, it will be important that the 4pm nominations are automatically published at that set time each day, with data being reliably available and easily accessible so that buyers can effectively manage their spot market exposures. Provision of a short-term (1 week) nomination forecast (similar to the ST PASA) would also assist such buyers with near-term operational planning to help manage demand-side spot exposure risks.
Q8. Does the proposed Daily Shaping Period that commences at the Trading Interval ending at 09:05 and finishes at the Trading Interval ending at 09:00 the following day pose any material operational risks?	We do not expect this to pose any material operational risks.
Q9. Is a \$600 cap, in comparison to a \$300 cap, appropriate to support the entry of new firming assets? If not, why?	The \$600/MWh cap could provide an additional mechanism to support the bankability of new firming assets.
Q10. Are there any concerns with the proposed weekly settlement approach, aligned to the AEMO settlement calendar?	We recognise that weekly settlements have been proposed to allow buyers and sellers to efficiently manage prudential risks. This approach may be appropriate for project proponents and retailers,

	however it is not preferable for large C&I users such as BlueScope, as weekly settlements do not align with standard financial periods and require more frequent settlement validation, increases administrative cost and complexity. Consideration should be given to allowing monthly settlement by exception, for example where a buyer can demonstrate sufficient creditworthiness and a reasonable basis for the alternative arrangement. The ESEM Administrator could also provide standardised settlement calculation tools for each product, incorporating participant-specific contract parameters and relevant market inputs. This would materially reduce the administrative burden of settlement validation, particularly for the dynamic time-of-day swap where nominated charge and discharge periods vary daily.						
Q11. Are alternate approaches to manage Force Majeure risk exposure (outside of the contracts) required to support the entry of new assets?	Force majeure risk management is challenging, and we do not have a firm view on whether a buy-back mechanism will be sufficient or if there is a need for an additional mechanism such as seller FM insurance.						
Q12. Do the proposed contract structures achieve the Working Group's Terms of Reference and perform well against the identified evaluation criteria?	<table> <tr> <td>Bulk energy: Regional Reference PPA</td><td>Well</td></tr> <tr> <td>Shaping: Dynamic Time of Day Block Spread Swap</td><td>Well</td></tr> <tr> <td>Firming: \$600 cap</td><td>Well</td></tr> </table> <i>Additional comments:</i> The contract structures appear broadly consistent with the Working Group's Terms of Reference and provide a credible basis for standardised products across bulk energy, shaping and firming. Their effectiveness in supporting investment and buyer risk management will ultimately depend on commercial usability, market uptake, liquidity and competitive pricing.	Bulk energy: Regional Reference PPA	Well	Shaping: Dynamic Time of Day Block Spread Swap	Well	Firming: \$600 cap	Well
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Q13. Are there any concerns with the ability of the contract structures proposed to be subject to a Market Making Obligation (MMO) in the future?	<table border="1"> <tr> <td><i>Bulk energy: Regional Reference PPA</i></td><td>Neutral</td></tr> <tr> <td><i>Shaping: Dynamic Time of Day Block Spread Swap</i></td><td>Neutral</td></tr> <tr> <td><i>Firming: \$600 cap</i></td><td>Neutral</td></tr> </table> <i>Additional comments:</i> At this stage, we do not have concerns.	<i>Bulk energy: Regional Reference PPA</i>	Neutral	<i>Shaping: Dynamic Time of Day Block Spread Swap</i>	Neutral	<i>Firming: \$600 cap</i>	Neutral
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<i>Shaping: Dynamic Time of Day Block Spread Swap</i>	Neutral						
<i>Firming: \$600 cap</i>	Neutral						
Q14. Will the proposed contract structures, in conjunction with other risk management contracts, such as flat swaps, evening peak swaps or caps, be effective for buyers (e.g. retailers, large loads, etc.) to manage financial risks?	The proposed products have the potential complement flat swaps, peak products and conventional caps as part of a diversified risk-management portfolio. Ultimately, their value to large users will depend on whether they deliver competitive pricing and effective risk management.						