

Industry-led Electricity Contract Co-Design — Consultation on Preferred Contract Structures

**Draft submission from Clean Energy Tasmania
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About Clean Energy Tasmania

Clean Energy Tasmania (CET) is an industry-led Board subcommittee of the Tasmanian Chamber of Commerce and Industry (TCCI). It brings together organisations with an interest in the responsible development of Tasmania's clean energy sector and its contribution to the state's economy.

CET's scope includes clean energy investment, generation, transmission, storage and supporting infrastructure. It provides industry perspectives and expertise to inform policy, advocacy and engagement with government and regulators.

CET's position

CET supports standard long-term electricity contracts that address the gap between the contracting periods electricity buyers will accept and the revenue certainty needed to finance new projects.

The proposed contracts have potential to bring forward clean energy investment. Their value will depend on whether lenders recognise the contracted revenue as sufficiently reliable to support financing on reasonable terms.

For Tasmania, the design must account for the size and composition of its generation fleet, its hydro-dominated market and its interconnection with Victoria. These characteristics affect how projects manage their contracted exposure and the availability of other contracts to cover remaining risks.

CET's position is consistent with TCCI's policy principles and advocacy priorities supporting increased renewable generation, private investment, predictable rules, competitive neutrality and low energy costs. Effective contracts should support new generation and storage while improving access to secure, competitively priced electricity for Tasmanian businesses and major industrials.

CET's priorities for further design are:

- Manage the settlement risks facing Tasmanian projects, including projects supplying another region.
- Provide workable arrangements for network outages, constraints and other interruptions outside a project's control.

- Establish clear and fair treatment of negative prices.
- Provide contract terms that support financing and proportionate security requirements.
- Encourage additional shaping and firming providers in Tasmania.

1. Regional Reference PPA — questions 1–4

The Regional Reference PPA could support longer-term contracting while reducing buyers' exposure to the performance of an individual project. However, generators retain exposure to differences between their own output and the reference fleet's output. If those differences are substantial, lenders may discount the value of the contracted revenue.

Member feedback identifies this as a particular concern for Tasmania. A new wind project in a different wind regime, such as the West Coast, may not closely track the output of existing northern projects. A large new project could also become a significant proportion of the reference fleet, changing the index against which its contract settles.

CET recommends that the Working Group demonstrate how the reference fleet and production index would operate for representative Tasmanian projects. This should assess:

- The geographic diversity and representativeness of the fleet.
- The effect of the 30 MW threshold for inclusion.
- The weighting of individual projects and the proposed scaling arrangements.
- Changes as projects connect, experience extended outages or retire.
- The effect of differences between project output and fleet output on financing.

The methodology should be transparent and its review arrangements predictable. CET also recommends assessing whether independently verified expected project output could inform contracted volumes while preserving standardisation and tradability.

Tasmanian projects supplying Victorian demand

Member feedback reports an understanding from a ReCFIT briefing that a Tasmanian project participating in a Victorian auction would settle against the Victorian reference fleet and Victorian spot price. CET seeks confirmation of this treatment.

If this is the intended approach, a Tasmanian project could face both differences in generation patterns and the wholesale price difference between Tasmania and Victoria. The combined exposure could materially reduce the financing benefit of the contract.

The Working Group should clarify the contract treatment of projects located in one region and supplying demand in another. It should assess whether settlement against the project's home-region reference, or an accessible mechanism to manage the interregional exposure, could provide a workable solution. Any proposed risk-management instrument should be assessed for availability, cost and effectiveness over the required contract period.

Price caps and negative prices

CET sees merit in considering the bulk energy price cap alongside the firming product. Matching price thresholds, however, does not provide complete protection where settlement volumes differ. Worked examples should demonstrate the combined exposure.

Negative-price provisions should preserve incentives for efficient dispatch and avoid creating financial exposure that generators cannot reasonably manage when reducing output is commercially sensible.

CET recommends comparing the proposed volume knock-out, zero-dollar floor and continued negative-price exposure against their effects on financing, operating incentives and buyer value. This should account for settlement against the reference fleet and renewable energy certificates remaining outside the contract.

CET does not nominate a preferred negative-price mechanism at this stage.

2. Dynamic Time of Day Block Spread Swap — questions 5–8

CET supports further development of a shaping contract that adapts to changing supply and demand.

Member feedback indicates that day-ahead nomination and publication at 4 pm appear workable. These settings should nevertheless be validated with operators, including the proposed daily shaping period ending at 9 am.

Tasmanian testing should examine whether residual demand forecasts identify periods that provide a useful hedge against actual price differences. It should consider hydro dispatch, wind output, interconnector conditions and different demand profiles.

The assessment should also account for storage duration, efficiency losses, degradation and obligations across consecutive days. Forecast sources, publication times and arrangements for corrected or missing data must be clear.

A further priority is whether the product supports entry by new storage and other shaping providers. CET recommends testing the terms from the perspective of independent entrants as well as established operators, so the design promotes greater choice for Tasmanian buyers.

3. Firming cap contract — question 9

CET supports a firming product that facilitates investment in dispatchable capacity and protects buyers against high-price events.

CET does not have a settled preference between the proposed \$600/MWh cap and a \$300/MWh cap. The decision should consider financing benefits, premiums, buyers' remaining exposure and compatibility with other traded products.

Member feedback highlights the importance of established trading arrangements for \$300 caps. The Working Group should demonstrate that a \$600 product would attract sufficient buyers and sellers and that complementary hedging would be available at reasonable cost.

The analysis should include Tasmanian conditions and both short and prolonged high-price events. As with shaping, the design should support additional providers entering the market and strengthening competition.

4. Settlement, security and interruptions — questions 10–11

Member feedback indicates that weekly settlement is workable. CET supports alignment with AEMO's settlement calendar where this reduces financial security requirements and administrative costs.

Weekly settlement must still be assessed alongside collateral, payment timing and cash-flow volatility. Security requirements should reflect the actual exposure and avoid unnecessarily favouring large balance sheets over independent project developers.

CET recommends considering proportionate security requirements, staged where appropriate to project milestones, and alternative forms of security such as suitably rated insurance bonds alongside bank guarantees. Contract security should be clearly distinguished from tender or project-development security.

Network outages, constraints and force majeure

A financial contract may continue to settle when the underlying project cannot generate. Member feedback identifies particular concern about network outages, transmission constraints and AEMO directions outside the generator's control.

CET recommends explicit assessment of these exposures and their implications for financing. The assessment should consider whether defined relief or an arrangement outside the standard contract can address risks that cannot reasonably be managed by the project.

The ability to buy back a position should not be assumed to provide adequate protection. Replacement contracts may be unavailable or prohibitively expensive during a wider disruption.

Any solution should allocate risks efficiently, preserve incentives for sound project management and maintain the standard contracts' tradability.

5. Financing and overall effectiveness — questions 12–14

The contracts should provide revenue that lenders can rely on over the period required to finance a project.

Member feedback identifies contract periods of 15–20 years, indexation or partial inflation protection, and a strongly creditworthy counterparty as important financing considerations. CET recommends that the Working Group assess these matters with developers and lenders and clearly identify which will be resolved through contract documentation and which depend on broader scheme or tender design.

Long-term agreements also require predictable treatment of changes in law, market arrangements and contract methodology. Existing commitments should be protected against retrospective changes that undermine the basis on which investment was made.

The proposed products should be tested together for representative Tasmanian generation and storage projects, retailers and large electricity users. The assessment should identify remaining risks and whether additional contracts are available to manage them affordably.

Standardisation can support trading, but an active secondary market cannot be assumed in every region. The suitability of the products for future market making should therefore be demonstrated in Tasmania, including whether they support new entry and fair competition between public and private participants.

CET supports continued development of the proposed contracts, with these matters addressed through regional analysis and further engagement with developers, operators, buyers and lenders. The final design must provide a practical financing benefit for Tasmanian projects and support reliable, competitively priced electricity.