

2 October 2026

Submitted via the ASL website.

Attention: Industry-led Electricity Contract Co-Design Working Group

Re: Electricity Services Entry Mechanism (ESEM) Contract Co-Design Consultation

Delta Power & Energy Pty Ltd ('**Delta**') welcomes the opportunity to respond to ASL's Industry-led Electricity Contract Co-Design consultation paper. Delta is an incumbent generator in the NEM and is an active trading participant in the electricity derivatives market.

Our primary consideration in assessing the proposed contract designs is whether they will develop sufficient liquidity, fungibility and a credible secondary market over time.

We support the Electricity Contract Co-Design Working Group's objective of developing a small set of standardised products that can support investment and be traded in secondary markets. From a trading perspective, however, their success will depend not only on supporting project financing, but also on attracting natural buyers once the Electricity Services Entry Mechanism Administrator (ESEMA) begins recycling these contracts.

In our view, the proposed Regional Reference PPA and \$600 Cap are reasonably designed products that align with existing market needs and can be readily understood, valued, and integrated into hedge portfolios. The Dynamic Time of Day Block Spread Swap, as currently proposed, is less convincing because its design is more clearly aligned to seller bankability than buyer hedge effectiveness.

Regional Reference PPA

We are broadly supportive of the Regional Reference PPA.

The proposed structure appears to appropriately balance fungibility and bankability while reducing buyer risks associated with project-specific contracts, such as underperformance and unplanned outages, as these are spread and averaged across the regional reference fleet. The use of a regional reference fleet should facilitate a more liquid and transferable product than traditional renewable PPAs, while retaining incentives for individual plant performance.

We understand the inclusion of a price cap, recognising that it materially improves the bankability of the product by limiting seller exposure to periods where the output of the project defending the contract diverges from the output of the regional reference fleet. However, while the product becomes more bankable and fungible as a result, the price cap also transfers additional risk to buyers. Unlike a traditional run-of-plant PPA, the Regional Reference PPA does not provide protection above the cap level. As a result, buyers remain exposed to extreme price outcomes above the cap and will likely need to procure additional hedge products, such as caps or other firming instruments, to manage this residual risk.

Overall, the extent to which the regional reference PPA is adopted by retailers and other buyers is likely to be influenced by the cap level and how effective the complementary hedge products are. On the latter point, we consider the Dynamic Time of Day Block Spread Swap needs further consideration to allow a buyer to use it to support the Regional Reference PPA. This is explained in the next section.

Dynamic Time of Day Block Spread Swap

We understand and support the objective of this product, namely the development of a standardised shaping product that supports investment in batteries and other firming technologies. The proposed

structure appears capable of providing a bankable revenue stream for sellers and reflects the economics of storage assets, particularly the ability to capture value between charging and discharging periods.

However, in our view the current design is heavily focused on the needs of the seller and gives insufficient consideration to the requirements of the eventual buyer. The consultation paper explicitly notes that sellers have the incentive to charge, discharge, and optimise around the nominated periods in an effort to outperform the daily spread in real time. By contrast, buyers are provided with no flexibility to respond as market conditions and forecast price outcomes change throughout the day.

We agree that sellers should retain the ability to outperform the nominated daily spread. However, we consider buyers should also be afforded some limited optionality. Ultimately, the buyer bears greater consequences if the nominated discharge period differs from the period in which the most significant price risk materialises. As a result, buyers have a strong interest in ensuring the discharge period aligns with their actual risk exposure.

For this reason, consideration should be given to whether limited buyer discretion could improve hedge effectiveness and buyer participation. We are not proposing any form of post-hoc assessment or retrospective nomination. Rather, one option could be to allow buyers to amend the nominated charge and/or discharge periods prior to the commencement of those periods. For example, if the nominated discharge period is 4:00pm to 8:00pm, but updated forecasts at 1:00pm indicate that the highest priced periods are more likely to occur between 6:00pm and 10:00pm, the buyer could elect to adjust the discharge window accordingly.

We do not believe such an approach would materially reduce the fungibility, bankability or standardisation of the product. The seller would still know the relevant charge and discharge periods before operational decisions need to be made and would retain the ability to optimise around those periods. The contract would remain a standardised 2-hour, 4-hour or 8-hour shaping product, with settlement continuing to be based on transparent and published spot market outcomes. The key difference is that buyers would have a greater ability to align the hedge with their actual risk profile as updated forecasts emerge.

More broadly, we consider it vital that buyer incentives and buyer demand are given greater attention in the product design. While the consultation paper clearly identifies the natural sellers of the product, namely batteries and other providers of shaping services, it is less clear who the natural buyers will be. There is a real risk that the ESEMA could ultimately be left with a product that effectively supports project financing but is not sufficiently valued by the wider market.

In our view, the key unresolved question for this product remains buyer demand. Greater consideration should therefore be given to features that improve hedge effectiveness and encourage secondary market participation, while preserving the standardisation, fungibility and bankability that are central to the objectives of the co-design process.

\$600 Cap

We support the proposed cap product.

Caps are well understood, actively traded products with an established buyer base and proven liquidity. As a result, we expect this product will be adopted by the market and integrated into existing hedge portfolios.

The product provides a familiar mechanism for managing extreme price risk while supporting investment in firming capacity. While there may be differing views on the optimal strike level, we consider it should align with the price cap of the Regional Reference PPA to create greater complementarity between the products and support the development of an active secondary market.

Force Majeure

Delta agrees and supports the Australian Financial Markets Association's (AFMA) position that recycled ESEM derivative contracts should not include physical force majeure provisions, because Australian electricity derivatives are cash-settled financial products rather than asset-linked offtake agreements. Any mechanism to address project bankability impacts from force majeure should therefore sit outside the recycled derivative contracts, so their fungibility, liquidity and value to buyers are preserved.

Conclusion

The Regional Reference PPA and the \$600 Cap are likely to achieve the Working Group's objectives of attracting buyers and sellers, supporting investment and ultimately fostering a liquid secondary market. Our reservation with the Regional Reference PPA remains the presence of a \$600 cap as a risk management tool or effective hedge for buyers.

Our main reservation relates to the Dynamic Time of Day Block Spread Swap. While the product appears capable of supporting storage investment, there is too much uncertainty and risk for buyers to use it sufficiently as a broad hedging product. We encourage the Working Group to place greater emphasis on demonstrating likely buyer demand and secondary market liquidity before finalising the shaping product design.

Thank you for your consideration. Please contact Delta's Market Compliance & Regulation Manager at joel.aulbury@deltapae.com.au should you wish to discuss any aspects of this submission.

Yours sincerely,



Andy Young
Energy Markets Risk Manager