

ASL - INDUSTRY-LED ELECTRICITY CONTRACT CO-DESIGN CONSULTATION PAPER 2 OCTOBER 2026

INTRODUCTION

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our members are the engine room of the Australian economy, producing many of the products that households and business use every day including bricks, glass, steel, aluminium, cement, paper, data services, food and beverages. Combined, our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

EUAA members are focussed on making products that meet their own customers' requirements where energy is just one input to the process albeit a critical one. Their expectation is that the energy industry continues to provide energy services that are fit for purpose and consistent with the National Electricity Objectives (NEO) so that our members can continue to provide a fit for purpose product for their customers.

Thank you for the opportunity to make a submission in response to the AusEnergy Services Limited (ASL) Industry-Led Electricity Contract Co-Design Consultation Paper.

EUAA supports the intent to develop standardised, fungible products that improve liquidity and support investment in renewable generation and firming. The proposed contract suite represents a serious attempt to address the long-standing tenor gap between customer contracting horizons and the investment windows required for new generation and storage. EUAA's comments are directed to the form and performance of the three proposed contracts, rather than the broader Electricity Service Entry Mechanism (ESEM) or Market Making Obligation (MMO) policy architecture.

EUAA assesses the proposed designs against the Working Group's own evaluation criteria and three core principles that reflect the needs of commercial and industrial (C&I) buyers. First, risk allocation must be efficient and predictable, with risks assigned to the party best placed to manage them and without creating new forms of volatility for buyers. Second, the contracts must be operationally usable and complementary as a suite, including when retailers or other counterparties use them as wholesale building blocks to hedge customer load. Third, the products must be attractive to buyers, adaptable to future market conditions and sufficiently simple to support long-term liquidity, competitive pricing and tight bid spreads under any future MMO.

Across the consultation period, members consistently emphasised that contract design must balance bankability for new entrants with affordability, efficient investment signals and usability for buyers. Members are concerned that the proposed designs place substantial weight on project bankability without equivalent demonstration that the suite will deliver simple, competitive and predictable load-following retail outcomes for large users. The final design should preserve incentives for efficient project selection and operation, rather than socialising risks that developers or asset owners are better placed to manage.

Regional Reference Power Purchase Agreement (RRPPA)

EUAA considers the RRPPA is a potentially workable foundation for bulk energy contracting, particularly for variable renewable technologies. The fleet-based index may reduce buyers' exposure to individual project underperformance and provide a more diversified hedge profile. However, the RRPPA remains a wholesale building block rather than a load-following hedge. Buyers will retain shape and basis risk where regional renewable output, congestion or curtailment does not align with their consumption profile.

The stability, representativeness and governance of the Reference Production Index will therefore be critical. The Working Group should test whether a reference fleet that includes existing generators remains representative of the generation profile of assets supporting ESEM contracts over time. Differences in asset age, location, technology and resource quality may create a persistent divergence between indexed settlement volumes and the aggregate output of ESEM-supported assets. This could result in buyers making settlements calculated on volumes that are not representative of the aggregate output of the assets supported through the ESEM. The risk may become more material over longer contract tenors as fleet composition and operating conditions change. The index should also preserve appropriate incentives for efficient project selection and operation, and minimise the risk of unintended behaviours, including potential gaming of generation profiles or settlement outcomes, that could weaken the relationship between contract settlement and underlying asset performance.

EUAA recognises that the index must remain sufficiently broad, transparent and standardised to support fungibility. However, we consider that fungibility should not come at the expense of an enduring disconnect between indexed settlement volumes and the relevant asset cohort. The Working Group should demonstrate how the proposed fleet definition, eligibility thresholds and rules governing entry, exit, curtailment and changes in fleet composition will maintain the representativeness of the index over time.

Members have raised serious concerns about capping the RRPPA floating price at \$600/MWh. While the proposed cap may support project bankability, it removes part of the price protection otherwise provided by the swap, and transfers residual price risk to buyers. To the extent that a buyer has corresponding spot exposure and has not acquired supplementary protection, the buyer would retain exposure to prices above \$600/MWh, potentially up to the Market Price Cap. A buyer seeking more complete price protection may therefore need to purchase a supplementary cap. A flat cap would not match the shaped volume profile of the RRPPA. Buyers may consequently pay for cap protection during intervals in which the RRPPA volume is low or zero, while retaining residual shape and basis risk across their portfolio. Members consider this an inefficient and costly duplication of hedging effort.

The need to purchase supplementary protection could add materially to the buyer's total hedging cost. The extent of that cost will depend on prevailing market conditions, contract tenor, regional pricing, volume and credit terms. It should therefore be considered as part of the overall assessment of the RRPPA rather than treated as a separate buyer portfolio decision. Capping the RRPPA reduces the protection available to buyers. Where buyers are accepting a less valuable hedge as a result, it should be clear how that reduction in protection is reflected in the contract price.

EUAA does not consider that the proposed \$600/MWh cap has yet been demonstrated to appropriately balance buyer and seller risks. Before finalising the design, the Working Group should publish modelling comparing an

uncapped RRPPA, an RRPPA capped at \$600/MWh, and a capped RRPPA combined with supplementary flat-cap protection.

Negative Price Treatment

EUAA supports a negative price provision and considers that a volume knockout could be a more predictable and transparent option for buyers. Because settlement volume is determined by contract capacity multiplied by the Reference Production Index rather than the physical output of an individual project, the knockout could operate through the index, reducing the Reference Production Index to zero during negative price intervals. This would avoid buyer exposure during those intervals and maintain a clear incentive for efficient dispatch.

Dynamic Time of Day Spread Swap

Members recognise the intent of the Dynamic Time of Day (ToD) product and agree that shaping instruments are essential in a renewable-dominated market. However, members also consider that the proposed design introduces significant operational complexity and question whether the structure will remain appropriate over the long term. Reliance on Australian Energy Market Operator (AEMO) day-ahead residual demand forecasts may create volatility in shaping periods, particularly in regions with high renewable penetration where forecast error is common.

The rapid uptake of grid-scale batteries has already affected intraday price patterns. As battery penetration continues to increase, there is a risk that the proposed shaping periods may become less aligned with periods of material price volatility over time. This could result in buyers making fixed payments for shaping services that deliver diminishing value and increase the risk of consumers bearing long-term costs for services that may no longer be required.

The practical value of the proposed 4pm day-ahead nomination window is also unclear for many large commercial and industrial (C&I) energy users. Members questioned whether the nomination process is workable for retailers managing large C&I portfolios and useful for industrial customers that cannot change production schedules at short notice. While day-ahead transparency may assist some counterparties, additional operational complexity is likely to be intermediated by retailers and ultimately reflected in customer pricing.

The proposed shaping period from 09:05 to 09:00 the following day also raised concerns. Members noted that this window does not necessarily align with industrial load profiles, which often have distinct morning and afternoon peaks. EUAA considers that further testing is required to ensure the shaping period reflects actual buyer exposure rather than theoretical storage behaviour.

The interaction between the RRPPA and the Dynamic ToD product also requires further testing. The bulk contract responds to actual fleet output, while shaping periods are set using forecast residual demand. If renewable output falls earlier than forecast, a buyer may receive reduced bulk-energy cover before the shaping contract responds, leaving an unhedged interval. Contracted batteries may also have incentives to preserve energy for forecast discharge blocks rather than respond to real-time scarcity immediately before or after those blocks. These issues raise questions about how the products will interact under a range of operating conditions.

Firming Cap Product

EUAA acknowledges the Working Group's rationale for a \$600/MWh cap but considers that this strike level may not provide adequate protection for C&I buyers. Members emphasise that a \$300/MWh cap is far more aligned with the risk profile of industrial loads.

A \$600 strike leaves buyers exposed to extreme volatility during periods when renewable output is low, and shaping products have exhausted their ability to shift energy. For volumes otherwise exposed to spot prices, sustained prices between \$300/MWh and \$600/MWh could result in substantially higher average electricity costs without triggering any cap payments.

Members note that the cap product is intended to be fungible and traded in small parcels. While this is positive for liquidity, it does not resolve the fundamental issue that the strike price may be too high to provide meaningful protection for buyers. EUAA considers that further modelling is required to assess whether a lower strike could be accommodated without undermining project bankability.

Settlement, Prudentials and Force Majeure

EUAA does not oppose weekly settlement but notes that alignment with AEMO's calendar may increase prudential requirements for retailers. Any increase in prudential burden will ultimately be borne by C&I customers.

On force majeure, members consider that the ability for proponents to buy back positions is necessary but insufficient. Systemic events cannot be efficiently hedged through market buybacks alone. EUAA supports strong prudential requirements on sellers and further exploration of pooled insurance mechanisms to be paid for by sellers to ensure predictable and equitable treatment of force majeure risk and minimise the risk of systemic default.

Market Making Obligations and Liquidity

EUAA strongly supports the intent for these products to be subject to future Market Making Obligations. Members consistently emphasise that liquidity, transparent pricing and tight spreads are essential for ensuring that the benefits of the ESEM flow through to end users. Contract designs must remain simple enough to support robust secondary market activity. Overly complex shaping or index mechanisms may undermine this objective.

Integration with Existing Hedging Instruments

Members consider that the proposed products can complement existing hedging tools only if they are fit for use by buyers to manage price risk. The products are more likely to operate as wholesale building blocks, intermediated by retailers or other sophisticated counterparties, than as products managed directly by most large commercial and industrial customers. This can still provide value, but the relevant test is whether the suite ultimately supports simple, competitive and predictable load-following retail outcomes for large commercial and industrial energy users without transferring excessive shape, basis or forecast risk to buyers.

EUAA encourages the Working Group to demonstrate how the RRPPA, Dynamic ToD and firming cap integrate with typical retailer hedging stacks and representative commercial and industrial load profiles. This should include consideration of how the products interact when actual renewable output differs from forecast residual demand. Without this information, buyers cannot assess whether the suite provides a complementary and cost-effective hedge.

CONCLUDING REMARKS

EUAA supports the Working Group's direction and acknowledges the significant effort invested in developing the proposed contract suite. Members consider that several design elements require refinement to ensure the products deliver genuine value to commercial and industrial energy users. The central concern emerging from the consultation is that the designs appear more developed against the bankability criterion than against buyer attractiveness, efficient risk allocation and practical usability. The final design must uphold the principles set out in this submission. Risk allocation should remain predictable and should not shift unmanaged volatility, shape, basis or forecast risk onto buyers. Contract structures must be operationally usable for retailers and large energy users who manage complex load profiles and support competitive and predictable load-following outcomes.

With appropriate refinements, the ESEM contract suite can strengthen long-term market liquidity, support new entrant investment and contribute to a more efficient and competitive electricity market for Australian industry.

EUAA welcomes continued engagement with ASL and the Working Group as the design process progresses.

Please contact EUAA Policy Manager Dr Leigh Clemow, should you have any questions.



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