



Electricity Contract Co-Design Working Group
AusEnergy Services Limited

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To Electricity Contract Co-Design Working Group,

Industry-led Electricity Contract Co-Design Consultation Paper

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the Electricity Contract Co-Design Working Group (working group) on the key design features of the preferred electricity contract structures to underpin the proposed Electricity Service Entry Mechanism (ESEM) and Market Making Obligation (MMO).

The ENGIE Group is a global energy operator in the businesses of electricity, natural gas, and energy services. In Australia, ENGIE operates an asset fleet which includes renewables, gas-powered generation, and battery energy storage systems. ENGIE also provides electricity and/or gas to retail customers across Victoria, South Australia, New South Wales, Queensland, and Western Australia.

ENGIE is supportive of an industry-led approach to contract design for the ESEM and MMO and is appreciative of the efforts of the working group in developing these initial contract structures. ENGIE supports the development of standardised, fungible contracts that can support needed investment in new generation and storage projects while remaining useful to buyers, and capable of developing liquid secondary markets. ENGIE considers that there are still a number of unsettled elements of the ESEM framework that should be resolved before the details of contract terms and conditions are finalised. In particular, ENGIE would appreciate further guidance on the following aspects of the ESEM scheme:

- Clarify generation and storage technologies eligible for shaping and firm contracts
- Detail the calculation of the Reference Production Index across technologies and regions
- Detail the application of contracts to hybrid projects
- Explain plans for secondary trading of contracts on approved platforms

Without clarity of these fundamental details, it will be difficult to assess the relative merits of proposed contract terms and conditions. In particular, ENGIE considers it will be difficult to assess the application of contracts to particular projects and the overall cost impact of the scheme to industry and ultimately to consumers.

Regarding the proposed market making obligation, ENGIE considers that any future application of an MMO should be considered only after the relevant contracts have demonstrated sufficient maturity, liquidity and operational workability. ENGIE's experience to date is that market making obligation has been poorly rolled out in the NEM and may not be achieving their stated objectives.

Noting the above, ENGIE has provided feedback to the questions posed in the consultation. Nevertheless, it is important to appreciate these comments seeking to support development of proposed contract forms does not allay ENGIE's ongoing concerns about the ESEM policy overall and the potential deficiencies in the scheme. The risks posed by the proposed approach to forecasting, project selection, and overbuild are cause for significant concern although they are best discussed elsewhere.

Bulk Energy – Regional Reference PPA

Question 1: Is the proposed contract structure suitable for a range of bulk energy technologies?

ENGIE notes that the proposed retention of idiosyncratic risk for a seller, where there is exposure to the differences between its project and the relevant Reference Fleet, may be problematic for some wind assets. That said, there are circumstances where participants, projects, or buyers may be comfortable being exposed to outcomes which differ from the Regional Reference PPA. This means, as noted in the Q&A for Webinar 2, prospective wind project developers may have limited access to sites that are able to outperform or match the performance of the Reference Fleet¹ but the market may be able to manage this risk exposure. ENGIE suggests an emphasis on fungibility over further lowering risks under the pretence of bankability. That said, ENGIE welcomes further analysis from the working group on the impact on bankability for projects with varying correlations to the Reference Fleet as this may in time become matter of importance (i.e. offshore wind, hybrid projects etc)

Question 2: 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?

Question 9: Is a \$600 cap, in comparison to a \$300 cap, appropriate to support the entry of new firming assets? If not, why?

ENGIE supports the inclusion of a cap on spot price exposure to protect sellers from extremely high prices as part of the Regional Reference PPA. ENGIE agrees with the view that a \$600/MWh limit on exposure for the seller will improve bankability and better reflects the purpose of the product. It is appropriate that separate cap products deal with this additional price risk for buyers. Thus, ENGIE suggests that the \$600 limit within this product should dovetail with the \$600 cap product. However, this raises some additional issues which we will deal with here.

¹ ASL 2026, Q&A Responses – Electricity Contract Co-Design Webinar 2, 1 September, accessed at; https://asl.org.au/-/media/services/files/nem-review/260911-electricity-contract-codesign-webinar-2-qa-responses.pdf?rev=780d517c5e1c4108a3b67aea445c5f33&sc_lang=en

Noting the \$300 cap product is currently more frequently traded and utilised within retailer hedging strategies and it is unclear how both would or could best operate in tandem if some participants prefer the \$300 product remaining in place. There appears a lack of agreement within the industry.

ENGIE also has concerns with that the \$600 threshold does not provide sufficient incentives for long duration energy providers and does not fully value capacity. As set out in Form Energy's submission, and endorsed by ENGIE, the \$600 threshold is likely to overvalue short duration batteries at the expense of the longer duration technologies, current and yet to be developed, which can provide in excess of 8-hours of capacity. ENGIE considers this a problem that requires resolution and reliance of future tender or similar is not a suitable pathway forward. Reliance on future technology decisions also creates significant uncertainty also goes to the wider policy concerns regarding the overall ESEM policy approach versus other approaches.

Question 3: 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 swap? If so, is a volume knock-out (no settlement during negative price periods) or a \$0 price floor more preferable?

ENGIE supports the inclusion of a negative price provision in the proposed contract to manage the risk exposure from negative price periods. On balance, ENGIE prefers a \$0 price floor to a volume knock-out because it preserves continuity of the financial settlement while limiting exposure to negative prices. A volume knock-out could create additional volume and shape risk for buyers and may be more complex to hedge, particularly where the Reference Fleet continues to produce or is only partly curtailed.

From a seller perspective, the contract should not create incentives to generate through negative prices or penalise efficient curtailment. The treatment of economic and network curtailment should be transparent and reflected consistently in the Reference Production Index, with clear rules for partial curtailment, constraints and intervention events. This is important to avoid introducing basis risk that a project cannot reasonably control.

Question 4: 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)?

ENGIE notes that the proposed Reference Production Index is still in early development and there is limited information about the administrative aspects of the index, including how the projects within the Reference Fleet will be updated and how project weighting will be managed. ENGIE would welcome further industry engagement on the Reference Fleet if this bulk energy contract structure is progressed.

ENGIE considers that a reference index should reflect the realised production and common regional curtailment conditions. An index calculated on an ex-post dispatch basis may reflect these conditions and achieve this objective. However, it will not eliminate basis risk where an individual project has a different constraint exposure, loss factor, outage profile or operating response from the reference fleet. The methodology should therefore be transparent, independently administered and subject to stable governance, with advance notice and consultation before changes to fleet composition, weighting or data treatment.

There may be demand for separate regional wind and solar products because their production profiles and associated basis risks differ materially. However, excessive segmentation would reduce the number of eligible assets and buyers in each product and could undermine liquidity. ENGIE would only support a small set of technology-specific regional indices only where there is sufficient fleet depth, robust data and demonstrated buyer demand, rather than bespoke or highly localised baskets, which does not appear likely for the foreseeable future.

Shaping - Dynamic Time of Day (ToD) Block Spread Swap

Question 5: 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?

ENGIE understands that the working group have preferred dynamic time blocks over static time blocks as this approach manages the risk of peak periods shifting throughout the term and have resulted in higher daily spreads based on historical analysis. However, ENGIE agrees with feedback from the Australian Financial Markets Association (AFMA) that dynamically adjusting charge and discharge windows each day may introduce significant uncertainty for prospective buyers of this contract and may lessen the practical usefulness of the contract within retailer hedging strategies.²

Reliance on day-ahead residual-demand forecasts creates forecast-error and basis risk, particularly during volatile weather, unplanned outages, network constraints and rapidly changing rooftop solar output. For battery sellers, dynamic windows may improve alignment with expected charge and discharge opportunities, but they can also constrain operational optimisation and create opportunity costs where actual prices diverge from the forecast. ENGIE considers that the product should prioritise predictable hedging value over daily spot-market optimisation. Predetermined windows, set transparently before the product is recycled to market, would provide a clearer and more bankable product while allowing infrequent review as system conditions evolve.

Question 6: Does the use of AEMO's forecast data to determine shaping periods result in any material risks to the usability of this contract over the long-term?

AEMO's forecast data is an appropriate common and independently produced input, but its use should not transfer unmanageable forecast risk to contract counterparties. Long-term usability will depend on stable data definitions, publication timing, transparent treatment of forecast revisions and outages, and fallback arrangements where inputs are unavailable or materially erroneous. ENGIE considers that the contract should also provide a controlled process for adapting to material changes in AEMO's forecasting methodology without changing the economic character of existing positions.

Question 7: Does the proposed approach of determining nominations at 4pm on a day ahead basis pose any material operational risks?

² Australian Financial Market Authority 2026, Submission to ESEM Co-Design – Consultation Paper, 2 October, p. 2.

Determining nominations at 4 pm on the preceding day may provide a practical balance between forecast quality and the time needed for trading, bidding and operational planning. Nevertheless, it would lock in charge and discharge blocks before later forecast updates and may expose parties to material changes in weather, demand, outages or constraints overnight. Moving the deadline earlier would generally increase forecast error, while a materially later deadline could reduce the time available for risk management and operational preparation.

ENGIE recommends an extended consultation of this policy, testing the timing with prospective buyers, sellers and trading desks, and providing a clear contingency process for delayed or corrected inputs.

Question 8: 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?

The proposed 09:05 to 09:00 Daily Shaping Period may be operationally workable as it aligns the start of the contract day with likely solar charging conditions. However, it is less familiar than other options and may complicate reconciliation with other hedge products, internal risk systems and daily reporting. Any non-standard contract day should be supported by clear settlement specifications and tested with market participants before adoption.

ENGIE supports further consideration of AFMA's proposal to separate morning and evening peak products. Separate products would allow buyers to acquire the shaping profile that best matches their exposure and could improve contract simplicity and fungibility. Given the historically limited demand for morning peak products, the ESEM Administrator could procure a morning product only where regional and seasonal demand is demonstrated. This approach is preferable to embedding two daily charge and discharge windows in every contract.

ENGIE urges consideration that the shaping product discharging and charging windows may overlap with other service products that could undermine the liquidity across contracts. Overlapping across different contract windows and purposes may also reduce the opportunity for revenue stacking for longer-duration generating projects. This may bias the selection and investment in certain technologies, particularly across shaping and firming services that may not address the underlying needs of the market to meet system reliability requirements.

Common contract features

Question 10: Are there any concerns with the proposed weekly settlement approach, aligned to the AEMO settlement calendar?

ENGIE supports weekly settlement aligned with the AEMO settlement calendar. This approach should reduce implementation complexity by using familiar data, timing and reconciliation processes. The final terms should clearly address settlement revisions, prudential and credit-support implications, disputes and

the treatment of AEMO resettlements so that subsequent data changes do not create disproportionate administrative burden.

Question 11: Are alternate approaches to manage force majeure risk exposure (outside of the contracts) required to support the entry of new assets?

ENGIE acknowledges that force majeure risks are particularly relevant to investors. ENGIE agrees with the working group's position that force majeure risk sharing provisions cannot be included in the electricity contracts. Any force majeure provisions must be kept completely separate to the contracts and should be developed outside of this contract co-design process.

Overarching feedback

Question 12: Do the proposed contract structures achieve the WG's Terms of Reference and perform well against the identified evaluation criteria?

The proposed structures are capable of supporting the Working Group's objectives, but their success will depend on genuine buyer demand, simplicity and fungibility after contracts are recycled into the market. As noted earlier, there are a number of ESEM contract details that are yet to be determined.

The Regional Reference PPA may be useful if its index is transparent, credible, understood by industry and basis risk is manageable, while a cap contract is already a familiar product. The dynamic shaping product presents the greatest liquidity risk because daily variable windows make the hedge less predictable and harder to value, trade and integrate into retailer portfolios.

Limiting product variants, aligning features with established hedging practices and testing demand before finalising the products will be important to avoid fragmented, thinly traded markets.

Question 13: Are there any concerns with the ability of the contract structures proposed to be subject to a Market Making Obligation (MMO) in the future?

Notwithstanding earlier comments on the prospective demand from buyers for these electricity contracts, ENGIE considers that any decisions about the use of these contracts in the MMO should be separately considered at a time when the markets for those contracts are demonstrably mature. Before an MMO is imposed, the relevant product should have observable liquidity, reliable pricing, sufficient participation on both sides of the market and workable risk limits. Applying an MMO prematurely to complex or thinly traded products could increase compliance costs and widen bid-ask spreads without delivering durable liquidity.

The introduction of an MMO imposes costs and risks on entities providing market making services that may result in adverse positions in order to build liquidity in the trade of new contracts. ENGIE considers that the design of any MMO should allow fair compensation for undertaking these activities with an appropriately sized spread that reflects these costs and risks.

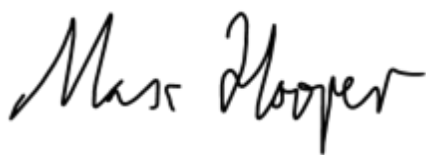
Question 14: Will the proposed contract structures, in conjunction with other risk management contracts, such as flat swaps, evening peak swaps or caps, be effective for buyers (e.g. retailers, large loads, etc.) to manage financial risks?

The proposed contracts could form part of an effective buyer hedging portfolio, but they will not provide complete risk coverage in isolation. Buyers are likely to continue using flat swaps, peak products and caps to manage residual load-shape, volume, basis and extreme-price risks. Effectiveness will therefore depend on how readily the new contracts can be combined with existing products, including alignment of cap thresholds, settlement periods and trading conventions. Greater predictability in the shaping product and a credible, transparent Reference Production Index would materially improve usability for retailers and large loads.

Concluding remarks

Should you have any queries in relation to this submission please do not hesitate to contact me, on telephone, 0484 815 546.

Yours sincerely,

A handwritten signature in black ink that reads "Max Hooper".

Max Hooper
Senior Compliance Advisor