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AusEnergy Services Limited (ASL)

Submitted electronically

Dear ASL

Industry-led Electricity Contract Co-Design Consultation Paper

Hydro Tasmania appreciates the opportunity to respond to the Consultation Paper. We remain closely engaged in the development of the Electricity Services Entry Mechanism (ESEM) and its related products.

Key points

- Hydro Tasmania supports the ongoing work on Contract Co-Design and welcomes the progress to date and transparency of this process.
- The key focus on 'bankability' aligns with the Working Group's remit, however it exposes key remaining questions about how market participants can build a hedged position with these three ESEM products. In particular, are the three products useful not just to the sellers but to potential buyers as well?
 - o The working group has communicated that they still expect other financial derivatives to be needed and traded in the market as well as an expectation that financial intermediaries or other participants can use ESEM products to back load-following swaps or other products.
- An issue we wish to highlight is that the Contract Co-design process does not have in its mandate, and is not producing, a financial derivative that would easily suit Long Duration Energy Storage (LDES) or facilitate its commercialisation. Several approaches and concepts within the ESEM design could partially provide revenue support, for example, LDES could provide Shaping, Firming or Strategic Reserves services, but proponents would likely need to secure revenue across all of these streams to be viable. This contrasts with other technologies for which the RRPPA and shaping products have been centred around (with focus on the bankability of projects).

- Given the recognition that LDES will need to play an important role in the future NEM it is disappointing that there is not more focus on the financial derivatives that could be bankable to commercialise these projects.
- Hydro Tasmania believes the market would benefit from a 'multi-day shaping' product which is not currently covered by the proposed ESEM contracts. For example, this would protect against periods of sustained low wind (particularly where this coincided with above average demand). Establishing an ESEM product around this service would support the bankability of LDES investments and some forms of flexible capacity that will otherwise face a tenor gap and/or revenue gap.

Hydro Tasmania looks forward to engaging further with ASL as ESEM contract design is finalised. If you wish to discuss any of this submission in more detail, please contact Colin Wain at colin.wain@hydro.com.au.

Yours sincerely,

Colin Wain
Manager NEM Policy