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Electricity Contract Co-Design Working Group

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Industry-led Electricity Contract Co-Design – Consultation Paper

Origin Energy Limited (Origin) welcomes the opportunity to provide comments on the Electricity Contract Co-Design Working Group's (WG) Industry-led Electricity Contract Co-Design Consultation Paper.

We appreciate the consultative, evidence-based and transparent approach taken by the WG to date and have provided responses to the consultation questions below.

Reference PPA

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

Origin supports the WG continuing to progress the design of a regional reference PPA for technologies likely to provide bulk energy services, such as wind and solar.

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?

Origin agrees that aligning the cap on spot price exposure under the reference PPA with the strike price of the firming product would help manage risk for both sellers and buyers. This alignment would create a clear boundary between the products: the seller's exposure under the bulk contract would end at the point at which the firming product begins providing protection against high prices. This should maintain the incentive for bulk service providers to contract to manage their exposure to spot prices while capping the extent of this exposure. It would also reduce the potential for gaps or overlaps in coverage, enable the contracts to operate as a coordinated package and simplify pricing and valuation, providing buyers with more predictable protection. However, further analysis would be valuable to ensure the common threshold is set at a level that appropriately balances risk allocation, hedge effectiveness, liquidity, and project bankability.

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?

A negative price provision is required to reflect that the buyer will not value additional supply when they are being paid to consume (negative spot price periods). It will also help limit volatility for the seller and their investors by bounding potential outcomes when prices fall below zero, complementing the cap on spot price exposure.

Our preference would be for a volume knock-out rather than a \$0 price floor to avoid the risk that the contract incentivises uneconomic supply from renewable generation and undermines efficient outcomes in the physical market. In this context, it is important to recognise that excess renewable generation

contributes to minimum system load challenges which can also undermine the secure and reliable operation of the grid.

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)?

Annual updates to the regional indices should help in limiting basis risk for sellers while preserving the value of the contract for buyers. We also support capping the impact of new projects on the index to manage the risk of material, unexpected distortions.

Dynamic Time of Day Block Spread Swap

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?

Origin considers the use of residual demand (effectively demand less renewable generation) to define charging and discharging periods will help align the shaping contract to the bulk energy contract. Residual demand provides a measure of when renewable output is abundant relative to demand and when additional supply is required. This would allow the shaping product to charge during periods of high bulk renewable generation and lower residual demand, and discharge when renewable output falls and residual demand rises. In this way, the shaping contract would complement the variable production profile covered by the bulk energy contract and help convert that output into a firmer profile that better matches buyers' demand.

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?

The use of independent forecast data with a transparent, established methodology has value. This would enable the contract to adapt charging and discharging periods to changing market conditions. We note concerns that this would make the contracted periods less predictable than a static schedule. We also recognise that the value of a dynamic approach will be dependent on the accuracy of AEMO's forecasts of both demand and weather dependent renewable generation. However, on balance we consider that the ability to reflect changing market conditions is likely to outweigh these risks.

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

Using AEMO's forecasts from 4pm the previous day should enable sellers and buyers to defend their expected exposure, while also allowing nominations to be made as close to real time as possible.

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?

No comment provided.

\$600 Cap

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

Origin supports the use of cap contracts as they can encourage investment in new firming capacity and leverage a mature and liquid contracting framework. As noted in our response to Question 2, given the benefits of aligning the cap contract strike price with the cap on spot price exposure under the bulk energy product, we recommend further analysis to ensure the common threshold is set at the appropriate level.

Additionally, for this product to be successful in bringing forward investment in long duration firming, the service will need to be appropriately defined. In our view, the market need is for long-duration firming that can run for periods much longer than 8 hours. During prolonged renewables lulls, long-duration firming may be needed to run for a sustained period, e.g. the 2026 ISP suggests during renewable lulls gas generation may be required for about 3 days at a time. Appropriately defining the service and establishing eligibility requirements to match the required duration will help ensure the firming service is reliably available when it is required.

Common Contract Features

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

We consider the proposed aligning of the weekly settlement approach to AEMO's settlement calendar to be pragmatic.

11. Are alternate approaches to manage FM risk exposure (outside of the contracts) required to support the entry of new assets?

We would not support integrating physical considerations, such as FM risk exposure into financial contracts, which would undermine their fungibility. FM risk exposure is an important issue that should be addressed through the ESEMA's broader processes.

Overarching feedback

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

Origin considers the proposed contracts are broadly consistent with the WG's Terms of Reference (ToR) and evaluation criteria. We note the ToR requires the design of contract structures to support fungible contracts for bulk, shaping and firming products that can be packaged to support technology neutral competition for services and enable spot market hedging.

We support the WG prioritising fungibility as central to implementing the NEM Review recommendations, including through the use of the proposed contracts in the ESEM auction and competitive markets to inform public and private investment and hedging decisions. The WG's evaluation criteria appropriately identifies the characteristics that would enable effective implementation of these contracts, such as bankability, adaptability and attractiveness for both buyers and sellers.

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?

The concerns relate less to whether the proposed contract structures could be subject to a future MMO but rather to how the AER would introduce the obligation and transition to these contracts. The bulk and shaping contracts would be new so it will take time to establish these markets and build liquidity. This may necessitate alternative contracts initially being used until demand for these contracts grows. Otherwise, there is a risk the MMO is triggered unnecessarily in nascent markets and does not deliver the intended objective of supporting access to products underpinning retail hedging strategies.

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?

These contracts should contribute to effective risk management for market participants when used alongside existing market instruments. As currently designed, they should be sufficiently fungible to enable investors in these projects to use market traded contracts to manage their positions. They should also facilitate the development of secondary markets, allowing the contracts to be repackaged into alternative structures that may better meet the risk management needs of buyers.

If you wish to discuss any aspect of this submission further, please contact Clare Stark at clare.stark@originenergy.com.au or on 0458 286 194.

Yours Sincerely,



Steve Reid
General Manager, Regulatory Policy