

2 October 2026
Mr Thimo Mueller
General Manager, Commercial, ASL
Via: [online lodgement on ASL website](#)

Response to ASL Electricity Contract Co-Design Working Group's Consultation Paper on ESEM Contract Design

Dear Mr Mueller,

Squadron Energy welcomes the opportunity to respond to the Consultation Paper published by the Electricity Contract Co-Design Working Group in September 2026 on the proposed design of the Electricity Services Entry Mechanism (ESEM) contracts.

Squadron Energy is Australia's leading renewable energy company that develops, operates and owns renewable energy assets in Australia. We currently have 2 gigawatts of renewable energy generation in operation or under construction. Our development pipeline includes projects at varying stages across wind, solar and firming technologies, including batteries and gas peaking plants with dual fuel capability. Squadron Energy also owns the Port Kembla Energy Terminal, a fully constructed LNG regasification terminal in NSW.

Key points

1. We support the proposed set of ESEM bulk energy, shaping and firming contracts, subject to resolution of the bankability items set out in this submission and in Attachment 1.
2. To support bankable investment outcomes, we recommend that the Commonwealth Government appropriately addresses through final contract design:
 - a. Provide protection against Force Majeure (FM) events outside the fungible contracts
 - b. Adopt a \$0 price floor during negative price periods for the Regional Reference Power Purchase Agreement (RRPPA), and
 - c. Introduce a cap on the RRPPA's floating leg.
3. To support industry's adoption of and confidence in the set of ESEM products, we recommend the Commonwealth Government should:
 - a. Finalise and publish independent testing of the products' bankability, and incorporate findings into the Working Group's final report in November 2026
 - b. Provide early clarity on the proposed Master Agreement and common contract terms.

Support for the overall ESEM contracting architecture

The Working Group's proposed ESEM contracting architecture represents a workable set of standardised, fungible products, subject to resolution of the outstanding bankability items set out in this submission and in Attachment 1.

In particular, we welcome the move from the earlier dispatch-weighted average price swap to a RRPPA that does not require variable renewable sellers to defend a fixed volume. This is a material improvement on earlier iterations of the bulk energy contract.

Independent bankability testing should be finalised and published before the final report

Bankability is the criterion most likely to determine whether the ESEM delivers new investment at scale.

It is not simply a question of whether a project can obtain finance under an ESEM contract: it also determines the level of gearing that lenders will allow, the resulting equity requirement and cost of capital, and therefore the volume of new capacity that the ESEM can enable. These impacts flow directly through to consumer costs and reliability outcomes.

We ask the Working Group to:

- Complete independent, real-world bankability and cash-flow testing of the products (particularly RRPPA) with experienced Australian financiers and equity investors active in NEM generation projects; and
- Publish the methodology and key findings of that testing (including any recommended design changes), so that industry can assess the credibility of the contract set before long-form drafting begins in 2027.

Without this, we risk embedding design features that materially reduce gearing outcomes or increase equity requirements, either of which would erode the ESEM's central purpose of enabling new investment.

FM protection outside all fungible contracts is a pre-condition of bankability

We accept that ESEM contracts must be fungible and that project-specific FM relief cannot be passed through the fungible derivative to future buyers without undermining the standardisation and tradability the NEM Review's design depends on.

However, precisely because the products are financial contracts settled irrespective of physical performance, sellers face material settlement exposure during events they cannot physically control or hedge - including where the project is unable to generate for reasons beyond its reasonable control. FM risk is therefore a key consideration for lenders and equity investors when assessing project viability.

The Working Group's proposal that a generator suffering an FM event could buy-back their position either in market or from the ESEM Administrator is unlikely to be sufficient on its own, particularly during the extended events that most concern financiers.

We therefore support the development of an appropriate external risk-management mechanism, administered alongside the ESEM contracts (for example, a pooled arrangement managed by the ESEM Administrator or Financial Management Entity, or an equivalent structure).

The Working Group has indicated it is considering such a mechanism, and we encourage the final report to record this as a pre-condition of the contract set meeting its bankability objective.

The mechanism should be designed with durable bilateral protection so that it cannot be materially altered without appropriate contractual protection for sellers.

Early clarity is needed on the Master Agreement and common contract terms

The draft product sheets defer a number of key commercial terms - including security and collateral, termination, change in law, market suspension and payment terms - to a template

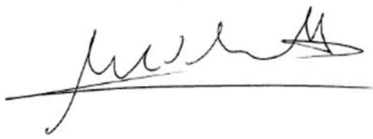
Master Agreement (e.g. ISDA Master Agreement drawing on the AFMA Australian Electricity Addendum) to be developed later.

Other commercial positions such as the in-market period and contract tenor are also vital inputs that the Government should consult on.

We ask the Working Group to include indicative positions in its November 2026 final report, so that lenders and equity investors can begin to assess the full contract package. Any material Master Agreement issues identified in that assessment should be resolved before long-form drafting is finalised in 2027.

If you would like to discuss this submission or any related content, please contact Marilyne Crestias, Director - Energy Policy & Regulation at marilyne.crestias@squadronenergy.com.

Yours sincerely,



Walter Schutte
EGM Customer and Energy Markets
Squadron Energy

ATTACHMENT 1 – DETAILED DESIGN RECOMMENDATIONS

RRPPA - Adopt a \$0 price floor during negative price periods, not a volume knock-out

We recommend a \$0/MWh price floor on the Floating Price for the purposes of RRPPA settlement, rather than a volume knock-out mechanism.

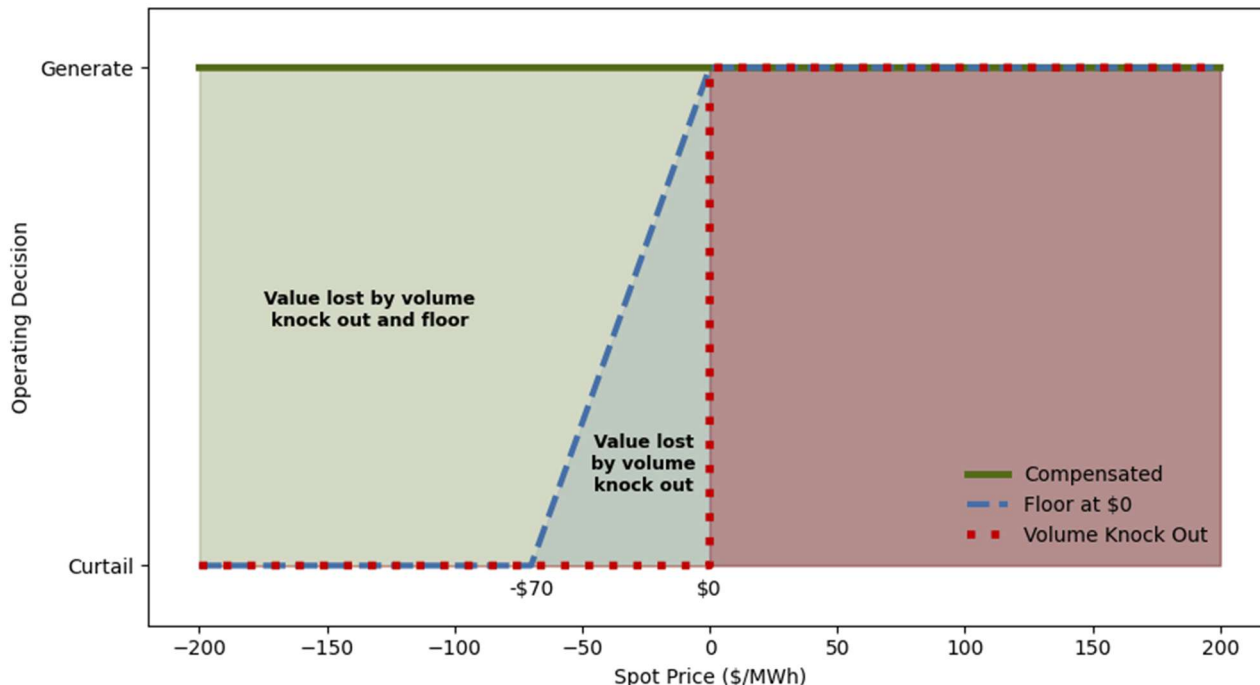
Both mechanisms protect the buyer from making increasingly large swap payments as spot prices become more negative and both contain an incentive for the seller to curtail in periods of negative prices, preserving efficient dispatch incentives.

A volume knock-out removes the entire Notional Quantity for any interval where the Floating Price is even marginally below zero. This creates disproportionate revenue volatility across a long contract tenor, particularly as negative-price intervals are likely to become more common under high variable renewable energy (VRE) penetration and materially weakens the contracted revenue stream that lenders size against.

A volume knock-out clause, combined with the introduction of basis risk in the RRPPA, could materially increase risk and jeopardise bankability.

In contrast, a \$0 floor preserves more of the seller's contracted revenue, is consistent with CIS, LTESA and current commercial PPA practice in the NEM, and still preserves efficient dispatch incentives by retaining an incentive for the seller to curtail in periods of negative prices.

The example below illustrates the value lost from various types of negative price clauses (assuming a \$70/MWh PPA strike price). It is worth noting that the PPA market has evolved from 'fully compensated' negative price clauses to 'price floor at \$0'. 'Volume knock out' clauses represent yet another evolution, but are more difficult to manage for sellers.



RRPPA - Introduce a cap on the RRPPA's Floating Price

We support the Working Group's proposal to cap the RRPPA Floating Price.

A cap is essential to limit sellers' exposure to extreme price events during which they cannot dispatch to defend the position (for example, during outages, curtailment or transmission

constraints). We encourage the Working Group to publish the comparative analysis underpinning the recommendation between a \$300/MWh and \$600/MWh cap.

RRPPA – Manage concentration in the reference fleet

The Reference Production Index is defined by all operational projects of the specified technology in the relevant region with a nameplate capacity of 30MW or greater.

The Working Group should retain an appropriate scaling factor or other concentration control so that individual large projects cannot disproportionately influence the index; the proposed 10-15% cap per project appears reasonable.

Shaping - Dynamic time of day block spread swap

We support:

- ex-ante day-ahead nomination of charge and discharge periods based on residual demand
 - this is a reasonable proxy for likely low- and high-price periods in a high-VRE system and provides sellers with sufficient notice to manage operational exposures.
- ex-post settlement based on realised spot prices
 - this will ensure that the contract reflects actual market conditions and preserve the seller's incentive to outperform where possible.

Firming - The cap alone is not sufficient to enable new Gas-Powered Generation (GPG) investment

New GPG projects face structural barriers to investment that a fungible cap cannot efficiently absorb (e.g. long-lead equipment delivery; high cost-escalation risk exacerbated by reliance on imported equipment; long-term emissions and policy uncertainty over asset lives that extend well beyond 2050).

The Working Group should note in its final report that the Commonwealth Government may need to consider additional mechanisms outside the Firming ESEM contract to support new GPG investment.