



Firming LTESA Consultation Paper

October 2026

Important notice

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VERSION CONTROL

Version	Release date	Changes
1	13/10/2026	n/a

Executive summary

ASL, acting as the Consumer Trustee under the NSW Electricity Infrastructure Roadmap, expects to launch a Firming Infrastructure tender in 2027 (**2027 Firming Tender**) as outlined in the 2026 Firming IIO Report, published on 13 October 2026 and [available here](#) (**2026 IIO Report**). The 2026 Firming Report identifies a substantial reliability gap in NSW from 2033-34 following the retirement of Bayswater and Vales Point Power Stations. The 2027 Firming Tender is expected to open in early 2027 and seek 1,500 MW of fuel-based firming infrastructure to address this identified gap.

This consultation paper outlines ASL's current thinking, and seeks market feedback, on three main areas as outlined below. This paper aims to assist prospective proponents to understand where ASL considers to be high-level focus areas for eligibility and merit assessment for the 2027 Firming Tender as well as to seek input on key aspects of the Firming LTESA product design.

Tender participation

The eligibility for the 2027 Firming Tender will reflect that projects must be able to:

- demonstrate **all three** key characteristics identified in the 2026 IIO Report – being:
 - net energy contribution;
 - dispatchable capacity;
 - sustained energy delivery of at least eight hours or longer; and
- be fully commissioned and operational on or before 31 May 2033.

ASL is seeking to further understand the pipeline of potentially eligible projects that could participate in the 2027 Firming Tender.

Expected merit characteristics of bids

ASL is consulting on refinements to the 2027 Firming Tender merit assessment approach to ensure a fit-for-purpose process for fuel-based generation procurement. ASL has identified the following areas of focus, and is seeking input from prospective proponents on additional considerations that may be relevant for assessing long-lead time projects:

- Financial value considerations;
- Strong reliability contribution to NSW electricity customers;
- Ability to reach Commercial Operation Date (**COD**) by 31 May 2033;
- Secure and reliable fuel supply;
- Credible financing and delivery capability;
- Social value; and
- Managing emissions.

Design of the Firming LTESA

ASL is considering potential changes to the design parameters of a Firming LTESA product to specifically support long-lead time fuel-based generation firming projects, such as gas-fired generation. These include:

- **Overarching product design:** ASL is broadly considering two product options:
 - an updated Annuity Product based on the previous Firming LTESAs; and

- a Cap Product that is more aligned with the firming service product designed by the Electricity Services Entry Mechanism (**ESEM**) industry contract co-design process¹.

Each option is considered credible for underwriting firming investment but with different implications for revenue certainty, operational incentives, risk allocation and fungibility; and

- **Specific design changes:** ASL is also considering ways to make the product fit-for-purpose for fuel-based generation. These include increasing the LTESA tenor to 20 years to better support long-lived assets, considering a cost adjustment regime to manage material exogenous cost risks during long-lead time procurement, and considering a fuel treatment to address long-term fuel price uncertainty.

Have your say:

Submissions on this consultation paper can be made [here](#). Submissions close COB 4 November 2026.

Box 1: Have your say – summary

Who can participate?

1. Do you have a project that may be eligible to participate in the 2027 Firming Tender? If so, please provide a brief summary of project details, including: project name, capacity, fuel supply (primary and alternative), duration, expected Commercial Operation Date, geographic and network connection location. *Note: this information will be kept commercial in confidence and will not be released publicly by ASL.*
2. ASL may set a minimum duration that is longer than eight hours of sustained energy delivery to sufficiently address the reliability gap identified. Would a longer duration (e.g. longer than eight hours of continuous dispatch) restrict your project's ability to participate in the 2027 Firming Tender? What key considerations affect your ability to extend your project duration?

What makes a bid competitive?

3. In your view, what data and information should be considered or modelled when valuing the benefits to NSW electricity customers for projects having longer durations?
4. Do you have any feedback or concerns on the proposed refinements to merit assessment? Please provide any available supporting information or evidence to assist our consideration of any feedback or concerns.

Proposed LTESA product options?

5. For fuel-based generation, is an updated Annuity Product or \$600 Cap Product more suitable for supporting investment in your project?
6. The Cap Product is designed to be fungible and align with other tradeable products which can also allow the LTES Operator to manage their risk using the contracts market. Would your project be reasonably able to physically defend the Cap Product when exercised, and are there any barriers to your project tendering for a Cap Product that does not include explicit relief provisions?

¹ Further material is available in Industry-led Electricity Co-Design Consultation Paper, September 2026 via <https://asl.org.au/tenders/industry-led-electricity-contract-co-design>

Contract term

7. How does increasing the term of support (e.g. to 20 years) improve the effectiveness of the LTESA in supporting your project to reach Final Investment Decision? If it does not, please explain why.

Cost adjustment regime

8. Would the proposed approach with component indexation be able to sufficiently de-risk your project in reaching Commercial Operation Date? If not, is there a more suitable approach and why does it better manage risks than the currently proposed approach?
9. Which components in Table 2 should have a cost adjustment applied? Justify the importance in reaching Final Investment Decision and why NSW electricity customers are best placed to take on this risk.
10. For your listed component adjustments, what index (or basket of indices) is most appropriate as a benchmark?
11. Provide any additional feedback on the design and mechanics of the cost adjustment regime.

Fuel treatment

12. Annuity Product – Is the inclusion of permitted fuel costs using a benchmark index price likely to improve your ability to bid, compared with not including fuel as a Permitted Cost? Is the index approach appropriate in ensuring that LTES Operators are partially exposed to fuel price movements and are incentivised to seek low-cost contracts for fuel supply?
13. Cap Product – Would extreme price compensation provide adequate protection in defending a \$600 Cap even with substantial increases in fuel price?
14. Considering all fuel sources, what are appropriate benchmark indices to use under the permitted fuel cost and extreme price compensation mechanisms?
15. Provide any additional feedback on design and mechanics of the permitted fuel cost and extreme price compensation schemes.

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1. Introduction

ASL is seeking market feedback to support development of the upcoming competitive tender process and LTESA product to deliver 1,500 MW of firming infrastructure by 2033.

1.1 Purpose of this consultation paper

AusEnergy Services Limited (**ASL**), acting as the Consumer Trustee in accordance with the *Electricity Infrastructure Investment Act 2020* (NSW) (**EII Act**), determines the terms and conditions of Long-Term Energy Service Agreements (**LTESA**) for New South Wales (**NSW**) Roadmap tenders.² ASL is committed to adapting its tender assessment process and products to reflect the changing needs of the energy system. The first iteration of the firming tender assessment process and LTESA products (both Firming Supply and Demand Response) were released to the market for consultation ahead of Tender Round 2 in 2023. The Firming LTESA products have an Annuity Product design that has been successfully utilised to support BESS and Demand Response projects.

This consultation paper shares key considerations on tender eligibility, refinements to the merit assessment approach and seeks market feedback on the pipeline of potentially eligible projects that could participate in an upcoming Firming Infrastructure tender in 2027 (**2027 Firming Tender**) as outlined in the 2026 Firming IIO Report, published on 13 October 2026 and [available here](#) (**2026 IIO Report**). This consultation paper also seeks market feedback on the design parameters of a Firming LTESA product that is designed to specifically support long-lead time fuel-based generation firming projects, such as gas-fired generation.

This consultative approach underpins ASL's commitment to engaging with the market to understand and adapt to the changing needs to support the required investment in a manner that is in the long-term financial interest of NSW customers.

Have your say:

Submissions on this consultation paper can be made [here](#). Submissions close COB 4 November 2026.

1.2 Background

In December 2025, the NSW Minister for Energy directed ASL, in its capacity as Consumer Trustee, to conduct a competitive tender for firming infrastructure under section 47(2) of the EII Act. The direction followed the [2025 Energy Security Target Monitor report \(2025 ESTM\)](#) which identified a 1,500 MW capacity shortfall in 2033-34, coinciding with the expected retirement of Vales Point and Bayswater coal-fired power stations.

Subsequently, ASL, in its capacity as Consumer Trustee, prepared the necessary updates to the firming infrastructure development pathway and tender plan in relation to the Infrastructure Investment Objectives under section 45(3) of the EII Act. This work is outlined in the 2026 IIO Report and will be delivered through the 2027 Firming Tender and, if needed, a future contingent tender approaching 2030 based on the circumstances and system needs identified at the time of the contingent tender.

² Under section 60(1) of the EII Act, ASL is appointed as the Consumer Trustee. Section 50(1) of the EII Act outlines the Consumer Trustee's ability to determine the terms and conditions of LTESAs.

2. Meeting the firming requirements – who can participate?

The 2026 IIO Report set a development pathway of 1,500 MW of additional firming infrastructure to be fully commissioned and operational by the end of May 2033.

The pathway reflects ASL's assessment of an appropriate and proportionate response to the identified reliability need and balances reliability, consumer cost and deliverability considerations in support of the long-term financial interests of NSW electricity customers.

The 2026 IIO Report identified three characteristics required from firming infrastructure to respond effectively to the identified reliability risks in 2033-34:

- **net energy contribution** – must increase the total volume of energy supplied to the system and not rely on energy consumed from the grid to deliver the contracted capacity;
- **dispatchable capacity** – must respond to system needs when required; and
- **sustained energy delivery** – must maintain energy supply over periods of at least eight hours, and ideally longer.

The duration requirement for sustained energy delivery may be increased to be greater than eight hours. ASL is seeking feedback on the suitability of this requirement for projects that are expected to participate in the 2027 Firming Tender.

To meet this firming development pathway, ASL intends to launch the 2027 Firming Tender in Q1 2027, which will seek 1,500 MW of fuel-based generation that:

- demonstrates all three key characteristics identified in the 2026 IIO Report;
- will be fully commissioned and operational by 31 May 2033; and
- provides a contribution to reliability outcomes in the Sydney-Newcastle-Wollongong (SNW) sub-region, consistent with the tender's reliability objectives and previous firming tenders.

It is considered that fuel-based generation, including gas-fired generation, is well placed to provide all three characteristics and therefore make a material contribution to addressing the identified reliability risks. In particular, the Report highlighted the need for infrastructure capable of continuing to supply energy through extended winter reliability events, when demand is high, renewable generation output is low and storage resources may have limited opportunities to recharge.

The [NSW Gas Statement 2026](#), released on 7 October 2026, has outlined the critical role of gas in powering our manufacturing sector and backing up the energy grid, and has flagged the Government's direction for taking practical and necessary steps to strengthen the state's gas supply.

Alternative technologies may still be eligible to participate but would need to demonstrate a very strong comparable contribution across all three characteristics. It is not expected that a multi-asset project (such as a deep storage solar hybrid) could aggregate different characteristics across separate assets or components of a project for the purposes of assessing alignment with the tender objectives. Rather, it is expected the project's contracted capacity must independently demonstrate all three characteristics.

As noted in the 2026 IIO Report, a future contingent tender may be considered approaching 2030 based on the circumstances and system needs identified at the time of the contingent tender. The contingent tender approach, product design and project characteristics could differ from those described for the 2027 Firming Tender. Different firming technologies may be suited to addressing this potential need.

Further, ASL intends to maintain clear separation between its firming, generation and long-duration storage infrastructure tenders, ensuring each procurement process targets the distinct attributes and system services required

to meet the NSW Roadmap's aims as set out in the relevant IIO report. As such, developers with projects that are not strongly aligned with the key objectives of the 2027 Firming Tender, for example other storage or hybrid projects, are encouraged to consider participation in the other NSW Roadmap generation and LDS tenders on [ASL's website](#).

Have your say:

1. Do you have a project that may be eligible to participate in the 2027 Firming Tender? If so, please provide a brief summary of project details, including: project name, capacity, fuel supply (primary and alternative), duration, expected Commercial Operation Date, geographic and network connection location. *Note: this information will be kept commercial in confidence and will not be released publicly by ASL.*
2. ASL may set a minimum duration that is longer than eight hours of sustained energy delivery to sufficiently address the reliability gap identified. Would a longer duration (e.g. longer than eight hours of continuous dispatch) restrict your project(s) ability to participate in the Tender? What key considerations affect your ability to extend your project duration?

3. Merit assessment approach – what can make a bid competitive?

This section outlines an initial view on the key issues ASL will consider when assessing the competitiveness of bids for the 2027 Firming Tender. The guidance is intended to help prospective proponents focus their project development activities, financing decisions, and bid preparation efforts in advance of the tender launch anticipated in Q1 2027.

These key issues reflect the 2027 Firming Tender's focus on fuel-based generation projects, which arises from the findings of the 2026 IIO Report. Fuel-based generation projects typically require longer development timeframes and face greater supply chain and delivery risks than other energy technologies, such as solar and BESS projects. ASL is therefore considering adapting the merit assessment framework from previous NSW Roadmap firming tenders to better reflect these challenges. This is intended to support effective competition within the 2027 Firming Tender and achieve tender outcomes that address reliability risks in a cost-efficient manner for NSW electricity customers.

The information provided in this section is only an early indication of ASL's assessment approach being considered and should not be relied upon as the final assessment framework. ASL will publish the applicable Eligibility and Merit Criteria and all associated assessment methodology, weightings and requirements in the Tender Guidelines at tender launch.

3.1 Considerations for Financial Value and System Benefits

The financial value assessment is expected to include consideration of:

- **Wholesale Market Benefit** – the forecast reduction in wholesale electricity market costs that could result from the addition of the project;
- **Reliability Contribution** – the project's potential ability to reduce unserved energy and reliability risks in NSW;
- **Net LTESA Cost** – based on forecast costs under the LTESA as the net of payments to the project and potential repayments to the Scheme Financial Vehicle (**SFV**), and calculated using modelled revenues for the project and the terms of the LTESA;
- **System Strength Contribution** – based on the project's potential value towards meeting system strength requirements or potential cost of system strength remediation. Projects that are synchronous, could operate in synchronous condenser mode, or provide fault current are expected to be more competitive in this component of assessment; and
- **System Security Services** – the project's ability to provide a range of essential system security services.

Proponents should note that the assessment of reliability contribution is expected to utilise Locational Reliability Factors. Full details of the reliability assessment framework will be detailed in the Tender Guidelines at tender launch.

It is expected that the highest performing projects and Bids will have relatively high Wholesale Market Benefits and Reliability Contribution, for relatively low Net LTESA Costs. It is also expected that they will provide a System Strength Contribution and be capable of providing a range of essential system security services.

Projects are expected to be more competitive where they demonstrate the following:

- Deliver all three characteristics identified in the 2026 IIO Report – net energy contribution, dispatchable capacity and sustained energy delivery – and materially reduce the reliability risks identified for 2033–34 across a range of future market conditions, including system stress events lasting eight hours or more;
- Provide longer dispatch capability where the additional continuous generation delivers incremental Wholesale Market Benefits and Reliability Contribution under modelled supply-demand scarcity conditions. The increase in these assessed benefits may offset costs incurred to ensure a project is capable of longer dispatch durations;

- Robust fuel supply arrangements to provide greater confidence that they can sustain generation during periods of system stress; and
- Be located in the SNW sub-region or other areas with good connection to load centres where projects are likely to reduce USE and therefore be expected to have higher reliability contribution (refer to page 17 of the [2026 IIO Report](#) for further details). Projects outside the SNW region may also provide value depending on their location and other project characteristics.

A range of electricity market scenarios will be used to understand a range of outcomes for Wholesale Market Benefit and Net LTESA Cost, recognising uncertainty in future market conditions. ASL expects to consider modelled electricity market scenarios that are inherently linked to operation that provides net energy contribution, dispatchable capacity and sustained energy delivery (e.g. during renewable energy droughts). Reliability Contribution uses a distinct modelling approach with separate reliability scenarios reflecting reliability risks over different time-horizons.

The duration requirement for sustained energy delivery may be increased to be greater than eight hours. ASL is seeking feedback on the suitability of this requirement to projects that are expected to participate in the 2027 Firming Tender.

3.2 Secure and reliable fuel supply

ASL understands that availability and pricing of gas fuel is a critical challenge for developers of fuel-based generation. A credible fuel-supply strategy will be a key driver of outcomes for this firming tender given the importance of a secure and reliable fuel supply for a project to address the reliability risks identified at lowest cost to NSW electricity customers.

Strong bids are expected to:

- Include secure long-term fuel procurement arrangements (e.g. evidence that the project has already secured fuel supply contracts or a robust and credible plan to secure them, evidenced by signed letters of support);
- Demonstrate credible fuel transport and logistics strategies (again evidenced by signed letters of support from transport partners);
- Demonstrate Fuel storage capability that enables the project to maintain energy supply over periods of at least eight hours (but ideally longer) **or** evidence of direct fuel supply and back-up fuel arrangements to justify storage capabilities of less than eight hours (e.g. connection to existing gas infrastructure with higher availabilities shown in Figure 23 of the [New South Wales Gas Infrastructure Review May 2025](#)); and
- A deep understanding of fuel supply related risks, a proposed strategy to manage these risks (in the form of a detailed risk register) and back-up options to ensure operational resilience during fuel supply disruptions.

3.3 Ability to reach COD by 31 May 2033

It is critical for successful projects in the 2027 Firming Tender to be fully commissioned and operational on or before 31 May 2033 in order to address the significant reliability risks identified in NSW from 2033-34 onwards. As such, ASL expects to perform a risk-based assessment of a project's deliverability and timeline and this will be a key driver of tender outcomes.

Proponents should also note that given the importance of the 31 May 2033 delivery to the 2027 Firming Tender, ASL is considering refining the Firming Project Development Agreement (**PDA**) to include additional project milestones, additional bonding requirements and early termination rights. This is intended to provide increased visibility of a project's ongoing management of delivery risks and progress towards reaching its Commercial Operation Date (**COD**) before or on 31 May 2033. The full pro forma of the Firming PDA updated for fuel-based generation will be made available at tender launch.

To demonstrate a credible pathway to reaching COD on or before 31 May 2033, proponents must provide a development plan which:

- Has sufficient detail and realistic assumptions about key development timelines, including critical milestones that will be contractually binding upon LTESA award;
- Demonstrates progress towards securing key planning, land and environmental approvals (either with evidence that they have already been obtained or are in progress) with no material risks identified or appropriate mitigation strategies;
- Demonstrates a clear and credible pathway to completing Network Connection, with no material risks to connection identified or appropriate mitigation strategies;
- Outlines credible procurement strategies for major equipment procurement (e.g. turbines), including evidence of secured or options on equipment or engagement with equipment providers that supports proposed procurement timelines, evidence of transport and logistics considerations, and an understanding of the key delay risks to equipment procurement;
- Contains detailed construction and commissioning schedules; and
- Demonstrates a deep understanding and mitigation of all other key project risks from development through to operations, outlined in a detailed project risk register.

3.4 Credible financing capability

ASL acknowledges that fuel-based generation involves significant capital investment, complex development and financing structures, and high cost uncertainty. However, ASL still expects proponents to demonstrate that they (along with any key contractors, suppliers and financiers) will be able to deliver the project.

Proponents of high-quality bids will be expected to:

- Provide a detailed financial model for the project, which will allow ASL to assess key financial assumptions, revenue and cost streams, working capital and debt/equity financing arrangements;
- Outline a credible financing strategy for the project that reflects the longer lead-times faced by fuel-based generation and appropriately manages the associated risks to achieving Final Investment Decision (**FID**). ASL will consider the credit risk of proponents and expects to see a demonstration of their financial strength and ability to secure the required finance through a mix of internal equity or externally via credible financiers. Proponents will also need to provide evidence for their financing strategy (e.g. signed binding contracts or evidence of ongoing engagement such as term sheets and signed letters of support);
- Demonstrate a clear and credible linkage between the LTESA Bid Variables, financial model, financing and revenue strategies; and
- Outline a clear credible pathway to FID, including a clear understanding of all risks to achieving FID and appropriate mitigation measures.

3.5 Social value

ASL remains committed to assessing social value outcomes with the objective of supporting a transparent and equitable evaluation of Social Value commitments across a range of project types.

Proponents of high quality bids will be expected to:

- Demonstrate a strategic, place-based approach to social value, moving beyond isolated initiatives to deliver coordinated, long-term benefits for communities and the regions in which projects operate across the four assessed domains: (i) local supply chain development, (ii) employment and workforce development, (iii) First Nations participation, and (iv) shared community benefits;
- Develop commitments that are appropriate to the technology, scale and context of its project where no technology-specific requirements exist;

- Provide a summary of the local community, workforce and First Nations context relevant to the project, drawing on engagement outcomes, local strategies and credible data sources to support how proposed commitments will respond to identified local needs within the dedicated Local Needs Analysis section in the Returnable Schedule; and
- for earlier stage projects, demonstrate a clear connection between local needs and proposed commitments, regardless of its stage or maturity.

Greater emphasis will be placed on the credibility, quality and deliverability of proposed commitments across the four domains, regardless of technology, with strong bids demonstrating a clear understanding of local needs and constraints, clear delivery pathways, and evidence of delivering comparable outcomes.

3.6 Managing emissions

Given the nature of fuel-based generation, projects bidding in the 2027 Firming Tender will have direct operational scope 1 emissions. As required by the EII Act, the merit assessment for the 2027 Firming Tender will continue to consider the extent to which projects contribute to a reduction in scope 1 emissions of greenhouse gas in the NSW electricity sector throughout project operations.

A strong bid is expected to be able to demonstrate, in detail, a balance between the efficient delivery of energy while managing emissions impacts over the life of the asset. Projects with lower overall scope 1 emissions, either via higher quantity and/or better quality offsets (e.g. ACCUs), better fuel efficiency, and/or operational carbon reduction measures, are expected to perform better in this aspect of the merit assessment.

Proponents should separately note that there will continue to be a Firming LTESA requirement that greenhouse gas emissions from projects be offset each year, in compliance with the offset regime in Part 12 of the *Electricity Infrastructure Investment Regulation 2021* (NSW) (**EII Regulation**). As with previous tenders, proponents must forecast their own emissions, cost of offsets (if applicable), and will remain exposed to cost changes for estimated emissions reduction.

Have your say:

3. In your view, what data or information should be considered or modelled when valuing the benefits to NSW electricity customers for projects having longer durations?
4. Do you have any feedback or concerns on the proposed refinements to merit assessment? Please provide any available supporting information or evidence to assist our consideration of any feedback or concerns.

4. Firming LTESA design

4.1 Design principles for modified Firming LTESA

The EII Act specifies requirements that must be followed by ASL when determining the terms and conditions of LTESAs. Additionally, the product design principles outlined below are to be considered in the long-term financial interest of NSW electricity customers for product selection and detailed design.

Principle	Description
Incentivise fuel-based firming investment that meets reliability needs	The product should incentivise investment in new fuel-based firming projects in NSW that best meet reliability needs. The product should be bankable and improve revenue certainty for investors.
De-risk long-lead time development to achieve cost and time efficiency	Procurement challenges for fuel-based firming technologies exceed typical tender milestones. The product should share a level of development risk to ensure projects proceed to commercial operations following tender award.
Efficient risk allocation between the project and SFV (on behalf of NSW electricity customers) during operational periods	Achieve an efficient risk allocation between projects and NSW electricity customers. The outcome of an efficient risk allocation is expected to be investors providing low-cost capital to fund projects while limiting risks to customers. When market conditions are favourable, upside should be shared with NSW customers.
Operationally achievable, and compliant with the EII Act	The product needs to be efficiently designed, marketed and tendered by ASL (acting as the Consumer Trustee), and operationalised by the SFV, as well as for proponents and financiers. Product needs to comply with section 50 of the EII Act and EII Regulation.
Maintain operational market signals	NEM market signals should remain the main signal that the project reacts to in an operational timeframe, and contract market participation is also incentivised.
Maximises tender competitiveness	The product's design should stimulate tender competition. This includes encouraging competition between market participants in accordance with regulation 26(1) of the EII Regulation.
Fungible and simple to value	The product should be simple to value and tradeable where sellers and buyers can confidently ascribe a price to the contract. It should not have a negative impact on contracting market liquidity. Benefits of the design should consider how NSW customers are hedged against risk over the contract term.

As outlined above, ASL has also considered and incorporated elements of the NEM Review Panel recommendations where applicable when considering these design options in the context of NSW Roadmap objectives.

4.2 Proposed LTESA Options

ASL is considering two product options:

- **Annuity Product** – based on previous NSW firming tenders; or
- **Cap Product** – aligned to the mechanism proposed for firming service contracts under the Electricity Services Entry Mechanism (ESEM).³

Each product is considered credible for underwriting firming investment needed to address a reliability shortfall, however each one has a distinct trade-off in terms of risk allocation and operational incentives.

This section compares the key distinctions between the Annuity Product and Cap Product. Specific changes to ensure the product is fit-for-purpose for fuel-based generation are presented in Section 4.3.

Table 1 Comparison of Annuity Product and Cap Product mechanics

Key term	Annuity Product	Cap Product
Option	Provides a series of options to enter a revenue top-up and sharing arrangement for the project.	Provides a series of options to enter a Cap Product for the project.
Bid Parameters	Primary: Annuity Cap. Secondary: Net Revenue Threshold.	Primary: Cap Premium. Secondary: Not applicable.
Settlement volume	Sent-out generation attributable to the Contracted Capacity (MW). Settlement is based on the Project's Net Operational Revenue rather than a fixed contracted volume.	A fixed Contracted Capacity (MW).
Payment structure (two-way payments)	SFV provides support payments when Net Operational Revenue is below the Net Revenue Threshold. LTES Operator shares a portion of surplus revenues with the SFV when Net Operational Revenue is above the Net Revenue Threshold.	SFV provides a fixed payment based on the Cap Premium across all intervals. LTES Operator provides difference payment to the SFV when the NSW electricity spot price exceeds the Strike Price.
Maximum Annual Payments	Payments from SFV to LTES Operator are limited to the Annuity Cap. Payments from LTES Operator to SFV are limited by Historical Net Payments ⁴ .	Payments from SFV to LTES Operator are only the prescribed Cap Premium amount. Payments from LTES Operator to SFV are equal to any surplus in NSW electricity spot price above the Strike Price and are limited only by the Market Price Cap. Payments occur only in intervals where NSW electricity spot price exceeds the Strike

³ Industry-led Electricity Co-Design Consultation Paper, September 2026, <https://asl.org.au/tenders/industry-led-electricity-contract-co-design>

⁴ Historical Net Payments are the net of previous payments between SFV and project. Projects would not be made to repay more than they have previously received in net payments.

		Price, but the number of intervals over which this can occur is subject to market conditions and is not capped.
Option Period	Annual options to enter an Annuity Period of two or more years. ⁵	Annual options to enter a one-year Cap Period (which may consist of a schedule of Quarterly Caps).
Minimum Notice Period	Six months ahead of an upcoming Exercised Period.	Six months ahead of an upcoming Exercised Period.
Settlement frequency	Quarterly.	Monthly.
Performance Obligations	Includes specific performance obligations including availability and responsiveness to peak events (e.g. Lack of Reserve (LOR) or extreme high price periods).	Minimal or no performance obligations.

4.2.1 Option 1: Annuity Product proposed changes

ASL is considering whether the performance obligations of past firming LTESAs remain adequate in ensuring reliability shortfalls are addressed.

The Annuity Product provides capped downside revenue support while preserving market signals and sharing upside to NSW electricity customers through the repayment mechanism. Performance obligations are required under an Annuity Product to ensure projects respond to reliability events where spot market incentives alone may not be sufficient.

Past firming LTESAs have included a performance obligation for projects to bid at least 50% of contracted capacity in Performance Events considered as LOR2 and LOR3 events with at least six hours' notice, and to make reasonable endeavours to bid maximum capacity in LOR2 and LOR3 events with shorter notice.

4.2.2 Option 2: Cap Product proposed settings

Strike price

ASL is seeking feedback on the suitability of a \$600/MWh Strike Price.

Under a Cap Product, the LTES Operator largely retains the operational, fuel, availability and dispatchability risk required to defend the cap Strike Price. ASL is proposing a \$600/MWh Strike Price for a firming Cap Product. This aligns to reference analysis conducted by the ESEM co-design working group as presented for consultation⁶, as well as current market settings of the Administrative Price Cap (**APC**).

Performance obligations

The mechanics of the Cap Product are expected to reduce the need for further specific performance obligations.

⁵ ASL considers that longer periods may provide a better risk-reward trade-off between the SFV and project compared with one-year periods when considering performance obligations, revenue certainty and potential for both LTESA support payments and repayments.

⁶ Further material is available in Industry-led Electricity Co-Design Consultation Paper, September 2026 via <https://asl.org.au/tenders/industry-led-electricity-contract-co-design>

To retain fungibility, no performance obligations would be imposed as a Cap Product inherently provides an incentive for the LTES Operator to physically defend its position when spot prices exceed the Strike Price. For comparable LOR2 and LOR3 events under the Annuity Product performance requirements, this would likely present a maximum liability of the Market Price Cap (currently \$23,200/MWh) less the Strike Price (\$600/MWh). Under APC events, AEMO directions will always take precedence over contract incentives. If an APC event were sustained for an extended period, AEMO maintains rights to direct generators to manage reliability risks and ensure efficient market operations under the National Electricity Rules.

Fungibility and relief periods

To ensure fungibility, which is a valuable component of the product design, ASL intends to avoid providing project-specific relief from obligations under the Cap Product.

The core benefit of the Cap Product is its fungible nature, quantifying risk that is then tradeable.

An LTES Operator that can forecast project issues and prevent it from physically defending a cap position would be less likely to exercise an option for an upcoming period. If they had exercised an option and then face an unforeseen project issue, it is possible the LTES Operator could manage its exposure by buying back their position from the contract market that has sufficient liquidity in the short term. This would offset the sold Cap Product and close the LTES Operator's position. This is only possible if the Cap Product is fungible. Customers having to hold the risk of a project's unavailability would mean that they had paid a premium without compensation in a period where the project becomes unavailable and does not provide the expected level of benefit to the wholesale market.

Have your say:

5. For fuel-based generation, is an updated Annuity Product or \$600 Cap Product more suitable for supporting investment in your project?
6. The Cap Product is designed to be fungible and align with other tradeable products which can also allow the LTES Operator to manage their risk using the contracts market. Would your project be reasonably able to physically defend the Cap Product when exercised, and are there any barriers to your project tendering for a Cap Product that does not include explicit relief provisions?

4.3 Specific challenges and design solutions to fuel-based generation development

ASL is seeking feedback on potential changes to LTESA and PDA product design that are intended to respond to some of the key challenges faced by long-lead time fuel-based generation projects.

Long-lead time fuel-based generation projects face a number of development and operational risks, including accessing long-term revenue certainty, lengthy procurement for equipment with uncertain pricing, and exposure to volatile commodity pricing. These key risks and potential mitigants through the LTESA are discussed further in this section. Where appropriate, these product design changes could be applied to either the Annuity Product or Cap Product.

4.3.1 Revenue certainty is a key investment constraint

Available revenue opportunities currently do not support investment in fuel-based generation without subsidy. Merchant revenues alone are insufficient to make an investment decision and there is limited tenor available in the offtake contracts market to cover a reasonable portion of the relatively long asset life (~25 years).

This introduces the product question:

What is the suitable term, in years, of available periods under the LTESA to appropriately support investment?

ASL is considering setting the default contract term to 20 years. This would provide up to 20 years of support to a project and is aimed at providing long-term revenue certainty that more closely aligns to the expected economic life of fuel-based generation assets. This may further improve project bankability. Typically, the economic life for an open-cycle gas turbine (**OCGT**), combined-cycle gas turbine, gas or diesel fuel reciprocating engine is expected to be 25 years or longer.⁷

Have your say:

7. How does increasing the term of support, e.g. to 20 years, improve the effectiveness of the LTESA in supporting your project to reach Final Investment Decision? If it does not, please explain why.

4.3.2 Equipment procurement is lengthy and faces cost uncertainty

ASL is considering methods to de-risk long-lead time procurement for the 2027 Firming Tender such that awarded projects have greater certainty in reaching FID and COD.

Due to the long-lead time of projects that are expected to contribute toward meeting the reliability shortfall by 2033-34, the consequences of awarded projects failing to progress to COD are significant. Compared with other technologies, long-lead time fuel-based generation projects may face more uncertain costs and timing for equipment between bid submission (which is expected to be pre-FID), reaching binding procurement milestones, FID and COD.

The lead time for turbine procurement can extend up to five years and require significant pre-FID financial commitment to ensure reasonable delivery timelines. These commitments often include paid slot reservations and large initial deposits (e.g., 10-30% of turbine cost). Other material cost components, namely Balance of Plant (**BoP**), may only be finalised years after bid submission. These components therefore carry even greater risk of cost changes over time.

This introduces the product question:

How are exogenous development risk factors for long-lead time development best placed and managed?

A cost adjustment regime is proposed to appropriately allocate development risks (both cost and timing) between the parties based on their ability to manage them. Key risks include:

- **Turbine procurement risk** - At bid submission, a proponent may only have indicative turbine costs, however, material cost changes can occur after bid submission prior to slot reservation or securing a binding supply agreement. Following award of an LTESA, a binding supply agreement must be executed by FID, but this may take place up to 6 – 12 months after tender award, leading to exposure to potentially significant price movements. This risk is currently elevated due to global competition for turbines exacerbated by demand from data centres; and
- **Non-binding pricing on BoP and gas infrastructure costs** - Other material cost components of BoP and gas infrastructure are non-binding at LTESA award and are exposed to potential price variation over a long duration, often up to turbine delivery. The risk of supplier price movements may be outside the reasonable control of the proponent and their ability to efficiently hedge this risk.

⁷ AEMO, [2025 Inputs Assumptions and Scenarios Workbook](#).

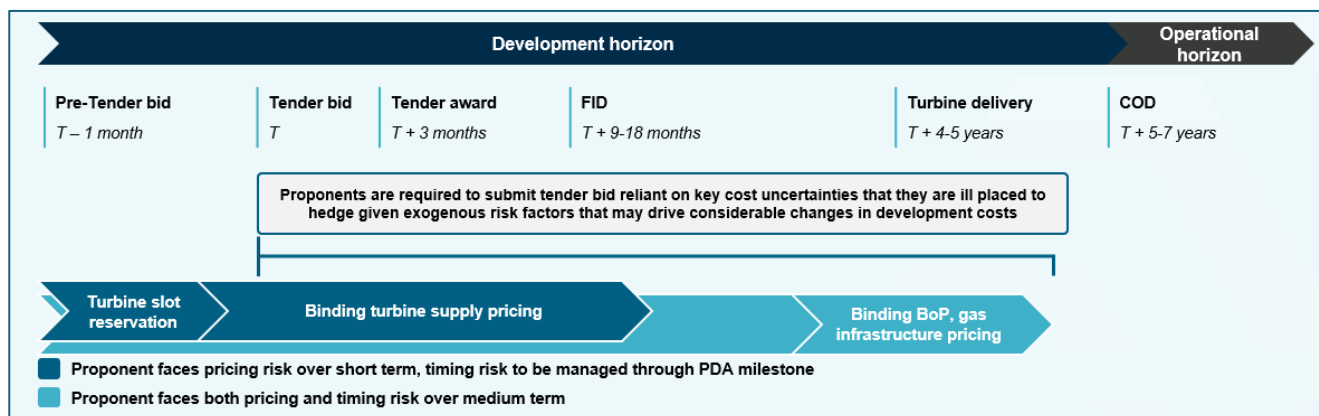


Figure 1 Pricing and timing risk faced by long-lead time fuel-based projects

ASL is considering whether a component-based approach can be an appropriate means to manage material development cost uncertainties. A standardised reference cost stack is provided in Table 2 and illustrates core development cost components for a hypothetical OCGT project in NSW.⁸

Table 2 Illustrative development cost stack for NSW OCGT

Cost component	Reference cost stack (illustrative)	Proponent exogenous risk factors	Proponent controllable risk factors	Party best placed to manage risk
Turbine OEM package	50%	Global turbine supply chain (OEM pricing), foreign exchange risk, underlying commodity pricing	Supplier selection, procurement timing	Proponent (with potential support) [^]
BoP (incl. mechanical and electrical)	15%	Global commodity pricing, transformer supply delays and cost, labour costs	Supplier selection	Proponent (with potential support) [^]
Gas infrastructure/ connection (incl. pipeline, compression, storage laterals)	7%	Gas network supplier costs, underlying commodity costs	Negotiation with gas network operator	Proponent, gas pipeline operator
Civil and site-specific works	10%	Construction, labour costs	Site selection, contractor risk	Proponent
Other (incl. approvals, engineering design, grid connection, commissioning, owner's costs, etc)	18%	Connection delays (electricity or gas), planning approval delays	Planning and connection timeframes, scope changes, project strategy	Proponent, TNSP, gas pipeline operator

[^] ASL is considering support for proponents in managing these components via a cost adjustment regime.

⁸ ASL has engaged in early market feedback to collate reference cost stack data – numbers are illustrative.

ASL is seeking feedback on which cost components defined in Table 2 should be eligible for adjustment.

At a minimum, the cost adjustment regime for the 2027 Firming Tender would seek to address the Turbine OEM package cost component, as turbine costs account for up to 50% of the total project cost stack. Given the magnitude of cost uncertainty that cannot be efficiently managed by proponents and the risk posed in not proceeding to FID, there is a justified need for a turbine cost adjustment regime. BoP and gas infrastructure costs are a relatively smaller component in the total project cost stack, yet the timing risk of these cost components may materialise over multiple years until a binding agreement is executed as well as being affected by global risk factors which pose significant risk to reaching commercial operations.

Left unaddressed, proponents may inefficiently bid into the 2027 Firming Tender by taking a conservative view on these cost components, leading to a higher overall scheme cost that is not in the long-term financial interest of NSW electricity customers. ASL also recognises the risk of project delays arising from cost increases throughout the development horizon, leading to a risk that the 2033-34 reliability shortfall may not be adequately addressed on time and there being no other possible replacement options available that could be delivered in a further compressed timeframe.

ASL considers that proponents should bear all other development costs in a competitive market environment that incentivises proponents to deliver cost-effective solutions while retaining the commercial benefits of doing so when operating in the electricity spot and contracting market.

ASL is seeking feedback on the proposed adjustment mechanism and its suitability in addressing long-lead time development challenges.

Cost adjustments by cost component would likely apply using a benchmark indexation approach as opposed to direct cost sharing. This approach best aligns with the long-term financial interest of NSW electricity customers, de-risking both the LTES Operator and the SFV while proponents retain basis risk to the index. This also retains incentives for proponents to source competitive suppliers.

At a high level and subject to further design, an overview of the component benchmark indexation is conveyed through the example of turbine procurement, noting PDA milestone timing and parameter settings are subject to final design:

- **Define eligible components** – Consider only development cost components that are sufficient in magnitude to risk the project not reaching FID or COD. Consider only components that carry exogenous risks that affect all proponents that are inefficient to hedge (e.g. global supply chain movements impacting turbine procurement);
- **Reference a benchmark index** – Reference a quantifiable index, or basket of indices with assigned weighting, to be set out in the Tender Guidelines per eligible cost component. The reference benchmark would be tracked equitably while retaining incentives for timely delivery. For example, a turbine reference index is likely to be tracked from Tender Bid Close Date to a Financial Close (**FC**) milestone (e.g. nine months after tender award). A materiality threshold would apply such that if the benchmark index does not exceed a minimum range in either direction then no cost adjustment would apply. Similarly, a ceiling and floor would limit index movement. Importantly, benchmark tracking is symmetrical in risk-reward allocation between the LTES Operator and SFV;
- **Determine the cost adjustment calculation** – Cost adjustment would be calculated based on cost components provided by proponents on bid submission, escalated by the floored/capped reference index movement from LTESA award to the FC milestone. Tracking against the index would be limited to the period until the FC Sunset Date to ensure there is a strong incentive for timely delivery and no incentive to delay a project further. A risk sharing allocation would apply to the cost adjustment tracking amount in percentage terms to ensure the LTES Operator retains incentives for cost efficient procurement;
- **Application under the Annuity Product** – The determined adjustment amount would be annualised over the contract term. The payment adjustment may be incorporated through an additive adjustment to the Annuity Cap

and Net Revenue Threshold, where these bid parameters affect the project's required revenue support to cover fixed costs. LTESA support is not expected to increase where the market provides sufficient returns to recover these cost changes; and

- **Application under the Cap Product** – The determined adjustment amount would be annualised over the contract term and be additive to the Cap Premium.

ASL is seeking feedback on milestone changes and additional milestones which may further achieve design objectives by de-risking both the proponent and the SFV.

PDA milestones will be updated to support deliverability, manage risks for both parties and enable practical implementation of the cost adjustment regime. ASL is seeking feedback on the following milestone changes:

- **Update the FC Sunset Date** – Reference index tracking is expected to be limited until FC is achieved or by the FC Sunset Date. Projects must reach FC within a fixed time period from LTESA award and is an existing PDA requirement to ensure projects show signs of being likely to succeed. It is also expected that the FC Sunset Date will not be more than 12 months following the FC Target Date nominated on bid submission; and
- **Introduce a Binding Turbine Supply Agreement milestone** – A new milestone is expected to be added for when a binding agreement with a turbine supplier is signed, given the long-lead time of this component and importance to project delivery. To de-risk both parties in ensuring deliverability of the project and success in reaching COD, reporting requirements will be added for transparency of actual project costs at the time the binding agreement is signed and of the committed for the Turbine Delivery Date.

Have your say:

8. Would the proposed approach with component indexation be able to sufficiently de-risk your project in reaching Commercial Operation Date? If not, is there a more suitable approach and why does it better manage risks than the currently proposed approach?
9. Which components in Table 2 should have a cost adjustment applied? Justify the importance in reaching Final Investment Decision and why NSW electricity customers are best placed to take on this risk.
10. For your listed component adjustments, what index (or basket of indices) is most appropriate as a benchmark?
11. Provide any additional feedback on the design and mechanics of the cost adjustment regime.

4.3.3 Long term commodity prices are increasingly volatile

Fuel-based generation projects face an additional challenge in managing long-term price risk for commodities that affect the predictability of Net Operational Revenue.

A fuel-dependent resource with considerable variable costs gives rise to two core challenges:

- **Fuel price risk** – Exposure to fuel prices is increasingly volatile given supply-demand changes which can be challenging to hedge, including the effect of geopolitical factors. Existing commodity contracting markets, as a hedging mechanism for proponents, have limited tenor while the underlying risk would remain over an extended contract period of 20 years; and
- **Volume risk** – As the NEM continues to transition to renewable generation and storage, market dynamics are becoming increasingly volatile. This creates a broadening range of potential outcomes for projects with high short-run marginal cost and low capacity factors, and makes forecasting expected generation volumes more difficult. Whilst there is an incentive to operate in the market when spot prices exceed variable costs, the significant uncertainty of generation volume is challenging for investors.

In managing price and volume risk, projects seek to contract for a fixed payment to recover capital expenditure and reduce merchant exposure. Under the proposed LTESA revenue support this fixed payment is delivered in the form of an Annuity Cap or Cap Premium that may be used to cover the majority of fixed costs for a project but should not cover variable operating costs that can be recovered in the spot market. The nature of a competitive tender can reduce the Annuity Cap or Cap Premium below total fixed costs, introducing residual forecasting risk of fuel price and volumes.

This introduces the product question under the Annuity Product and Cap Product:

How is price and volume risk best quantified and managed under the Annuity Product and Cap Product?

ASL is considering specific product design considerations for fuel to ensure LTES Operators retain short-term fuel management risks and measures to mitigate against these risks. These include that LTES Operators should:

- retain incentives to contract short-term positions in commodity markets and participate in the electricity market reflecting their incurred short-run marginal costs;
- ensure they contract adequate volumes (including continuous operation for periods greater than eight hours) to protect against short-term high impact events where these are credible, foreseeable risks; and
- ensure adequate supply arrangements including coverage of transportation and haulage costs as part of the LTES Operator's long-term fuel procurement strategy.

Annuity Product – Introducing allowance for fuel as a Permitted Cost

Fuel costs could be included as a Permitted Cost in Net Operational Revenue to allow for more efficient and simple bidding, but this must avoid dulling the incentive to have appropriately priced and sized contracts for fuel.

In previously awarded Firming LTESAs, the Annuity Product considered Net Operational Revenue to be Net Revenues minus Permitted Costs, with Permitted Costs including the cost of energy charged from the grid when a BESS is operating as load. In allowing charging as a Permitted Cost, storage assets could bid an Annuity Cap and Net Revenue Threshold based on an assumption that Net Operational Revenue reflects a captured spread on spot prices. As a revenue support mechanism, the Annuity Product then provides a revenue top-up where captured spreads may be insufficient to recover fixed costs of the asset. It is expected that those BESS projects are still exposed to market signals such that they should only operate when captured spreads are greater than the cost of cycling, including degradation.

These principles are fundamentally different for fuel-based generation projects. An OCGT should only operate in the market when spot prices exceed variable costs, including the cost of fuel, thereby maintaining a positive spark spread. Where the spark spread across a year is insufficient to recover fixed costs in addition to variable costs, the Annuity Product would provide a payment to ensure revenue sufficiency. Similarly, when market expectations are exceeded, less revenue support would be required as a product design element of the current Annuity Product mechanics. A competitive bid should reveal that the Annuity Cap never exceeds fixed costs – a project would never seek to operate with a negative spark spread and rely on support payments to recover variable costs.

ASL is considering including fuel as a Permitted Cost in the calculation of Net Operational Revenue. This reflects the fundamental principles described above but must maintain the appropriate incentives to maximise revenue through consideration of a positive spark spread. The proposed approach would consider a rolling average (e.g. three-year average) of a benchmark index for the primary fuel type that is tracked through the contract term. The average value of the benchmark index would be considered over a Calculation Period (e.g. monthly/quarterly/annually). For each exercised Annuity Period, the Net Operational Revenue would be calculated as:

$$NOR(\$) = \text{Operational Revenue} - \text{Permitted Costs}$$

Where:

- **Operational Revenue** includes spot market revenues or equivalent revenues from an offtake agreement; and

- **Permitted Costs** include a fuel cost term, considering the rolling average benchmark index price for the Calculation Period, a uniform predetermined heat rate for the technology class and project specific generation output.

ASL is conducting further analysis on the proposed consideration of including fuel as a Permitted Cost. Left excluded from a Permitted Cost, proponents would be required to take a position on spot revenues without regard to fuel price to bid an Annuity Cap and Net Revenue Threshold.

The extremities of possible spot market revenues are much greater for a proponent to try and appropriately bid a Net Revenue Threshold without consideration of the underlying fuel price. By including fuel as a Permitted Cost, the predictability of Net Operational Revenue as an effective spark spread is more confined than Operational Revenue alone, providing greater certainty, improving proponents' ability to forecast Net Operational Revenue effectively and hence bid the Annuity Cap and Net Revenue Threshold more efficiently.

Cap Product – Introducing an extreme price compensation payment

ASL is seeking feedback on the proposed extreme price compensation payment as an adequate measure to share extreme fuel risk exposure and maintain the fungibility of a fixed strike contract.

ASL is considering an extreme price compensation payment for the Cap Product with a \$600/MWh Strike Price. In most foreseeable market conditions, a cap with a \$600/MWh Strike Price provides sufficient return for a fuel-based generator to defend the cap position and recover all variable costs. However, in an extreme scenario with exceptionally high fuel prices, a generator may be liable to defend a contracted position where it is not economic to do so. While the LTES Operator could offset its position by buying a cap against its LTESA, ASL is seeking to ensure that LTES Operators continue to address reliability and supply scarcity events signalled by the spot market.

The extreme price compensation seeks to pay the LTES Operator a standalone payment where the average of a benchmark fuel index, multiplied by a technology class heat rate exceeds the Strike Price of \$600. The difference between the benchmark fuel index in \$/MWh terms and the \$600/MWh Strike Price would be deemed the compensation payment against project specific generation volumes. The LTES Operator therefore retains fuel price exposure up to the level at which the benchmark fuel index exceeds the strike.

Have your say:

12. Annuity Product – Is the inclusion of permitted fuel costs using a benchmark index price likely to improve your ability to bid, compared with not including fuel as a Permitted Cost? Is the index approach appropriate in ensuring that LTES Operators are partially exposed to fuel price movements and are incentivised to seek low-cost contracts for fuel supply?
13. Cap Product – Would extreme price compensation provide adequate protection in defending a \$600 Cap even with substantial increases in fuel price?
14. Considering all fuel sources, what are appropriate benchmark indices to use under the permitted fuel cost and extreme price compensation mechanisms?
15. Provide any additional feedback on design and mechanics of the permitted fuel cost and extreme price compensation schemes.

4.3.4 Broader challenges remain

ASL is aware of broader challenges raised in early market feedback including but not limited to fuel supply, planning and infrastructure dependencies and emissions policy risk. Refinements to the merit assessment, as expressed in Section 3, are designed to ensure proponents make best efforts to mitigate risks arising from these challenges. Other challenges not addressed in eligibility, merit assessment or product design may sit outside the remit of ASL in tendering the LTESA.

4.4 Interactions with the NEM Review and the Electricity Services Entry Mechanism

ASL notes the recommendation of the NEM Review Panel for a contract co-design group and trial tender to be conducted in 2026 for the ESEM. Tenders under the NSW Roadmap will continue to be conducted whilst preparatory work on the ESEM is underway. ASL is committed to continuing to support projects to progress their development.

In developing two firming product options, ASL has considered the recommendations of the NEM Review Panel while still meeting its obligations as the Consumer Trustee under the EII Act, in particular ensuring these products are considered to be in the long-term financial interest of NSW electricity customers.