



ESEM Contract Co-Design Update

14 July 2026



We acknowledge the Traditional Custodians of the land, seas and waters across Australia. We honour the wisdom of Aboriginal and Torres Strait Islander Elders past and present and embrace future generations.

We acknowledge that, wherever we work, we do so on Aboriginal and Torres Strait Islander lands. We pay respect to the world's oldest continuing culture and First Nations peoples' deep and continuing connection to Country; and hope that our work can benefit both people and Country.

AEMO Group is proud to have delivered its first Reconciliation Action Plan in May 2024. '*Journey of unity: AEMO's Reconciliation Path*' was created by Wiradjuri artist Lani Balzan to visually narrate our ongoing journey towards reconciliation – a collaborative endeavour that honours First Nations cultures, fosters mutual understanding, and paves the way for a brighter, more inclusive future.



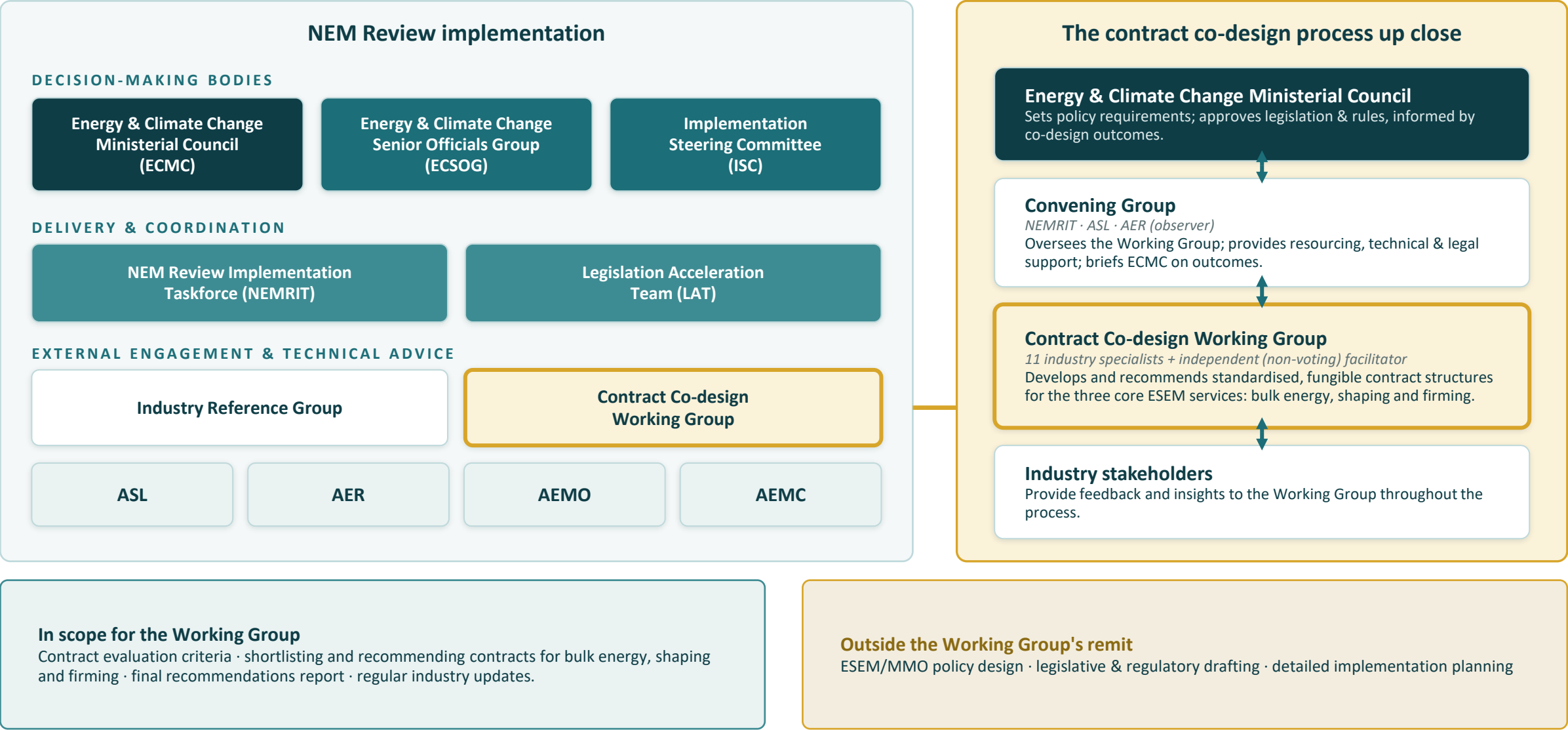
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Context



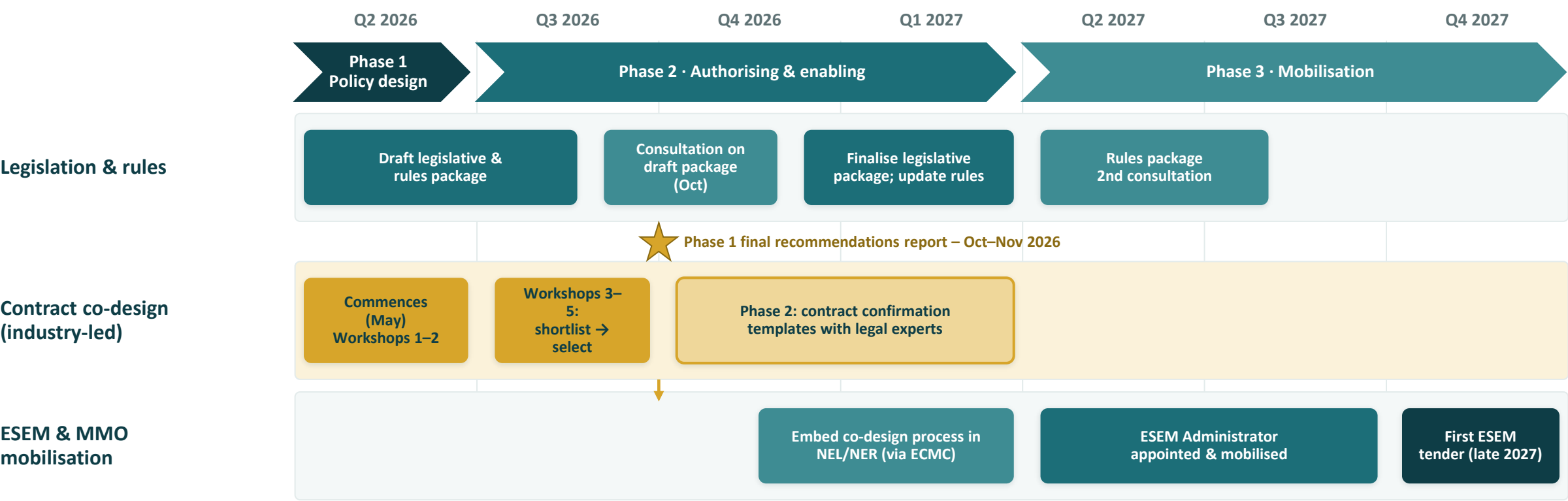
Where the contract co-design process sits in NEM Review implementation

The industry-led Working Group is one focused workstream within a broader governance structure overseen by energy ministers.



How contract co-design feeds the broader implementation timeline

The Working Group's contract recommendations are one input that flows into the legislative & rules package and downstream ESEM design.



Indicative and point-in-time: dates reflect the current implementation plan and will shift as the program progresses. First ESEM tender is subject to ECMC agreement and passage of the National Electricity Law.

A wide set of ESEM policy design matters is being progressed

Contract structures are one piece of a much larger design effort. These matters are being worked through the broader implementation program.

ESEM Design considerations

- Cost recovery
- Cost relief
- Interregional cost sharing
- Governance and accounting treatment
- Risk management
- Novation of existing contracts
- Trajectory setting
- Auction design
- Contract recycling
- Non-financial criteria
- Competition, monitoring and enforcement
- Strategic reserves
- Essential system services
- Transitional arrangements of existing schemes

How this relates to the Working Group: all these matters sit beyond the contract-structure remit and are progressed through the broader implementation program. The Working Group's recommended contracts are designed to work within these settings, not to determine them.

02

Progress update



Working group

Mandate

To develop fungible, standardised electricity contract structures across three Electricity Services Entry Mechanism (ESEM) services: **bulk energy, shaping, and firming**.

These structures are intended to support the financing of new market entrants through the ESEM and may be subject to future application under the Market Making Obligation (MMO) framework.

Composition

Tom Arnold	ACEN Australia
Ally Bonakdar	NAB
Paul Curnow	Akaysha Energy
Stephanie Easton	Iberdrola Australia
Paul Grzinic	Firmus
Nick Hawke	CEFC
Declan Kelly	Flow Power
Andrew Mulder	RWE
Jialin Shen	Ampyr Energy
Daniel Teng	Origin Energy
Andrew Wilkins	SA Water

Workshops

Workshop 1: Foundations

- Establish team working method.
- Ensure Working Group foundational understanding of potential contract models.
- Define required analysis to drive choices.

Workshop 2: Contract features

- Workshop contract options and assess against evaluation criteria.
- Identify pros & cons of different alternatives.
- Determine any further analysis required.

Workshop 3: Contract selection

- Re-visit evaluation of contract options with any additional evidence.
- Determine short list of preferred contract options.

Workshop 4: Implementation planning

- Align on preferred implementation approach.
- Align on high-level implementation roadmap.

Workshop 5: Recommendations & final report

- Align on final report recommendations.
- Issue final report.

Workshops to date

Workshop 1

1 Recap of NEM Review recommendations

2 Consideration of contract design criteria

3 Consideration of initial contract options

Workshop 2

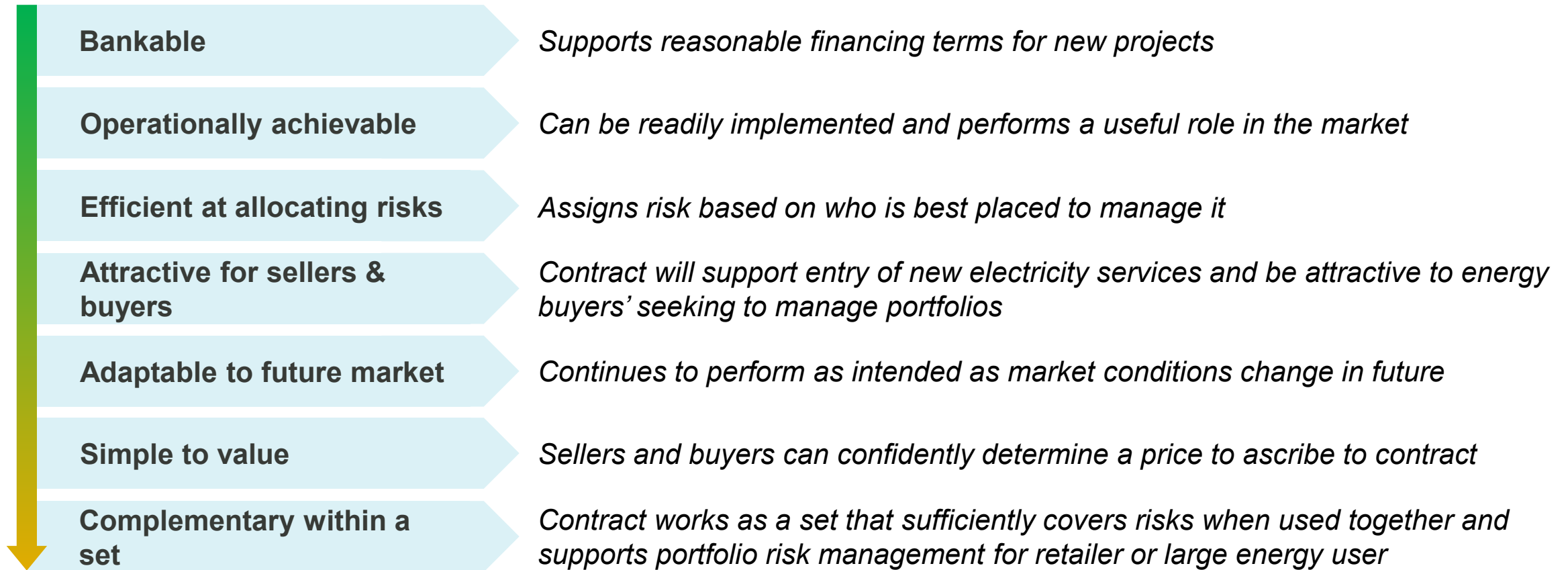
1 Demand side hedging

2 Assessment of contracts and risk allocation

3 Evaluation of contracts for further assessment

Contract evaluation criteria

The Working Group has retained and expanded on the evaluation criteria from the pilot process



Bulk energy

Three key contract structures were considered in detail

Reference ex-post revenue swap

Fixed revenue linked to the performance of a reference renewable generator.



Reference ex-post DWA swap

Fixed price linked to the dispatch-weighted average price of a reference renewable generator.



Time-of-day (ToD) swap

Fixed prices for different times of the day.



 *Prioritised*

 *Deprioritised*

Bulk energy

Additional considerations and areas for further analysis

 Test cap/floor design and cash flow outcomes.

 Assess bankability and financing implications.

 Review allocation of MLF, curtailment and FM risks.

 Quantify technology and regional risk differences.

 Explore insurance and risk management products.

 Compare against revenue swap, including accounting considerations.

Shaping

Six different contract structures were considered

Time of Day (ToD) block swap

Fixed time blocks across the day.



Evening peak block

Focused on evening peak periods.



High-low perfect spread

Based on actual highest and lowest price periods.



ToD Block Spread (Fixed Blocks)

Fixed charging and discharging periods.



High-low contiguous spread

Based on highest and lowest contiguous price periods.



ToD Block Spread (Nominated Blocks)

Time blocks can be nominated ahead of time rather than fixed for life of the project.



Prioritised



Deprioritised

Shaping

Additional considerations and areas for further analysis

-  Model cash flow outcomes and nomination approaches.
-  Assess bankability and financing impacts.
-  Test nomination block design and unintended consequences.
-  Review interaction with firming contracts.
-  Explore insurance and risk management options.
-  Consider flexible block durations and implementation impacts.

Firming

Cap contracts were considered at five different strike prices

\$200 cap

Lower strike price, behaves more like a swap.



\$300 cap

Existing industry-standard cap product.



\$1,500 cap

Covers more extreme price events.



\$600 cap

Aligned with the administered price cap.



\$5,000 cap

Considered during discussions but not prioritized.



Prioritised



Deprioritised

Firming

Additional considerations and areas for further analysis

 Model \$300 and \$600 cap product cash flows.

 Assess bankability and financing outcomes.

 Test interaction with MPC and CPT settings

 Validate strike price settings and incentives.

 Assess suitability for gas and long-duration storage investment.

 Explore alternative firming models with industry.

Next steps

The Working Group will provide final recommendations for contract structures by the end of 2026



Further analysis as outlined in previous slides, including assessment of key considerations across each contract type, stakeholder feedback, assessment using external price curves, and a bankability assessment by lenders before shortlisting.

Engagement and communication with industry

The working group will continue to engage with the market to share progress and seek feedback and input into the process

**Future webinar
updates on
progress**

**Briefings and
feedback through
existing industry
groups**

**Industry
consultation on
key topics**



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