Electricity contract co-design

Workshop 3 discussion materials

12 August 2026

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Acknowledgement of Country

We acknowledge the Traditional Owners of Country throughout Australia, and recognise their continuing connection to land, waters and culture. We pay our respects to their Elders past and present

Source: *Gadigal Country – Here and Now* by Dunghutti and Biripi Artist, Wanita Lowe, commissioned by L.E.K. as part of our Reflect RAP

ESEM Contract Co-design: Workshop 3 Agenda

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Competition and Consumer law obligations and information sharing

The Competition and Consumer Acts prohibits anti-competitive conduct, including:

Cartel conduct	Concerted practices
Contracts, arrangements or understandings between competitors to fix prices, restrict supply or acquisition of goods/services, allocate customers, suppliers, territories or rig bids	Other cooperation between competitors with the purpose, effect or likely effect of substantially lessening competition

Substantially lessening competition

Any other contracts, arrangements or understandings which have the purpose, effect or likely effect of substantially lessening competition	Any conduct by a company with market power which has the purpose, effect or likely effect of substantially lessening competition

Under no circumstances may Working Group members share competitively sensitive information with one another. As a general rule, if a Working Group member considers information to be sensitive from a commercial perspective and the information is not publicly available, it should not be discussed during Working Group meetings

Source: ASL – Contract Co-design Working Group – Meeting Communication Protocols

Principles for how we will work together as a team

Public Purpose Mindset

- Bring your experience and perspectives, but also step outside of them to consider the effect across the market and the grid
- Act in line with the National Electricity Objectives

Ownership

- The Working Group, not the Convening Group, owns the recommendations
- We're looking for this group to lean in and help drive the process
- Decisions should aim to reach consensus and represent all sides of the market

Constructive Participation

- A workable, imperfect, but standardised product beats many bespoke ones
- Constructive compromise is key
- Disagreement should always be clear and civil
- **Opinions without sufficient data to support them will not be treated as equal to evidence-backed perspectives**

Openness

- Chatham house rules apply – you can share externally but do not attribute. Where possible we will agree common talking points for what is shared across the industry
- We plan to invite participation of other industry representatives when their input would be valued

Source: NEM review contracts co-design group pilot – Workshop 1

Workshop 3 will focus on evaluating evidence of contract suitability, and contract selection

1 — Workshop 1: Foundations

- Establish how we are going to work as a team
- Ensure Working Group participants have a strong foundational understanding of potential contract models
- Define required analysis to drive choices

2 — Workshop 2: Contract features

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

3 — Workshop 3: Contract selection

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

This Workshop

4 — Workshop 4: Implementation planning

- Workshop and align on preferred implementation approach
- Align on a high-level implementation roadmap

5 — Workshop 5: Recommendations & final report

- Align on final report recommendations
- Issue final report

Objectives for Workshop 3

Workshop 3 aims to align the Working Group on preferred ESEM contract designs for each contract type. This will be achieved by:

1. Reviewing the shortlisted options for each contract type to clearly define the key features and design choices
2. Understanding the rick allocation implications from of different contract characteristics or design choices
3. Reviewing analysis on contract features and performance outcomes under simulated conditions to understand implications of contract choices for bankability
4. Evaluating contracts based on their operational viability as future ESEM contracts
5. Defining the highest-priority gaps to resolve in the analytical base

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Bulk energy contract operations and swap tool discussion

9:30 to 10:40am

- **Risk allocation and cash flows for bulk energy contracts (see ASL presentation), 10 mins**
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Transferring volume risk from generators to energy users involves a trade-off between bankability and efficient risk allocation

Ex-post reference DWA swap	Ex-post reference PPA swap	Ex-post reference Revenue swap
← More ‘efficient’ allocation of volume risk		
Higher likelihood of attractive debt finance (bankability) →		
Volume risk carried by the asset	Shared allocation of volume risk	Volume risk carried by the buyer
Most concerns about bankability due to generators’ exposure to both volume and price risk	Potential concerns about bankability due to generators’ exposure to price and some volume risk	Fewer bankability concerns as generator cash flow variability Is substantially reduces

Implications for contract selection:

- From an operational standpoint, generators have greatest control of generation volumes so are better placed to hold volume risk
- There may be a need to compromise a level of efficiency to achieve a ‘bankable’ outcome
- ‘Bankability’ is a threshold issue – it needs to be met but does not need to be maximised
- There are other less-distortionary approaches to improving bankability, e.g.:
  - Index design
  - Price floors
  - Negative price curtailment
  - Contract coverage

Contract design (Index design, Price floors)

Operator choices (Negative price curtailment, Contract coverage)

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Bulk energy contracts – analysis presentations and discussion

10:50 to 11:40am

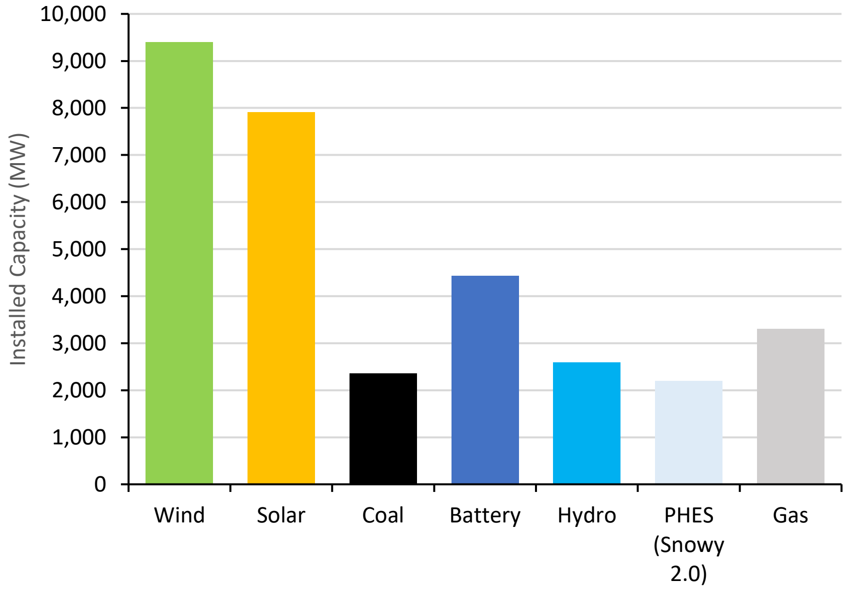
- **Griffith presentation and Q&A, 25 mins**
- **DCCEEW presentation and Q&A, including FM risks, 15 mins**

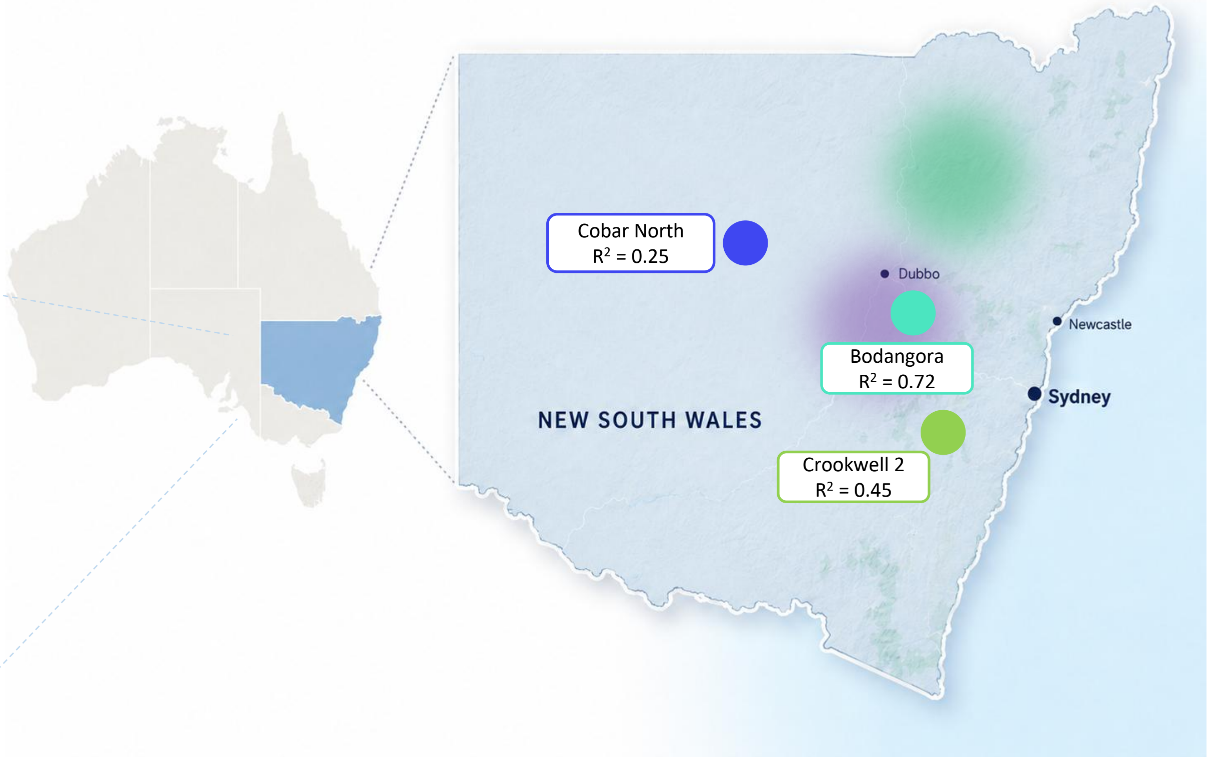
ESEM Contracts for earnings stability – wind farms

Tahlia Nolan, PhD Candidate, CAEEPR

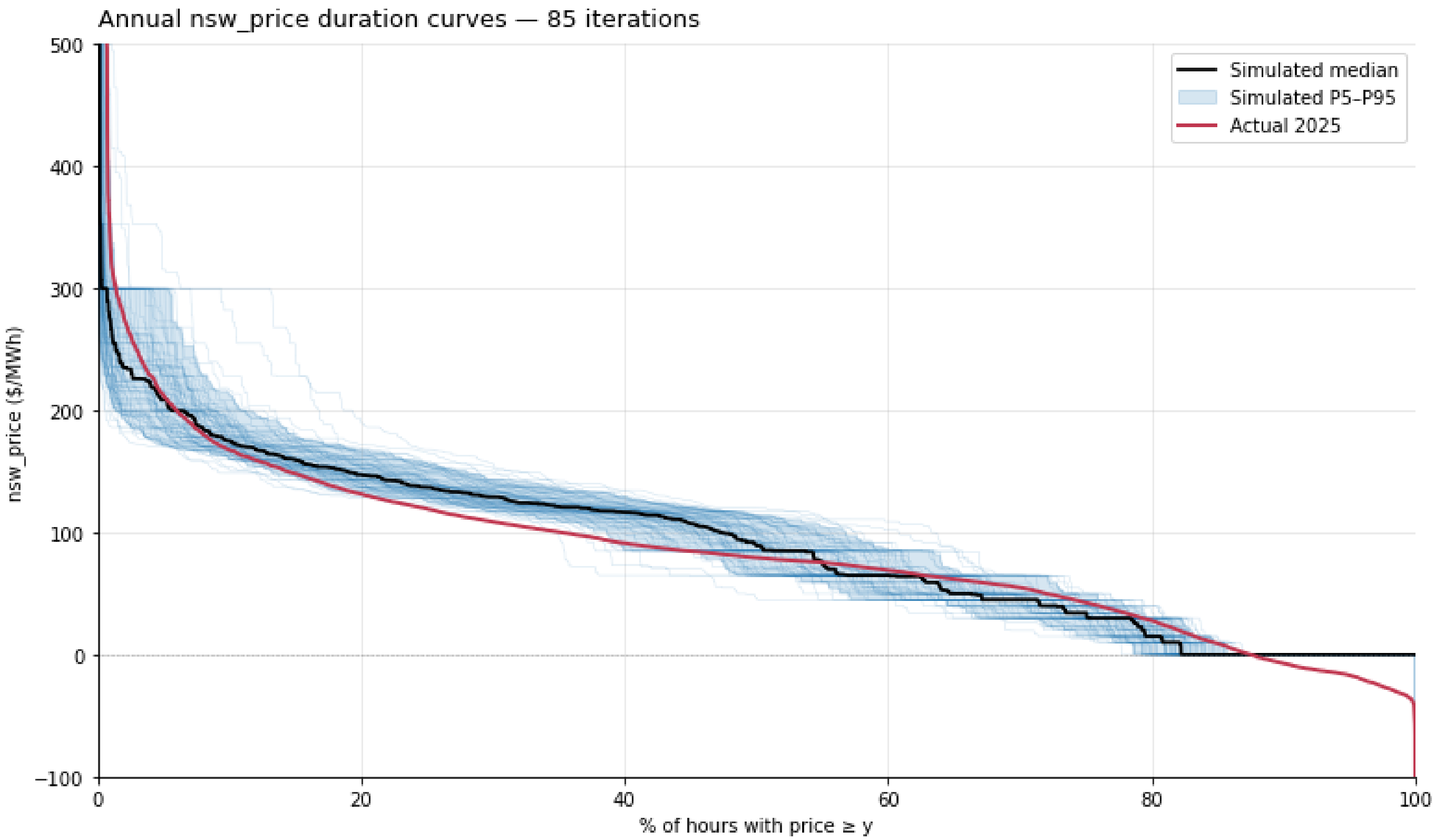
NSW bulk energy contracts in a weather dependent system

- Future market in the 2030's
- 85 weather years
- Reference projects normalised to 100 MW

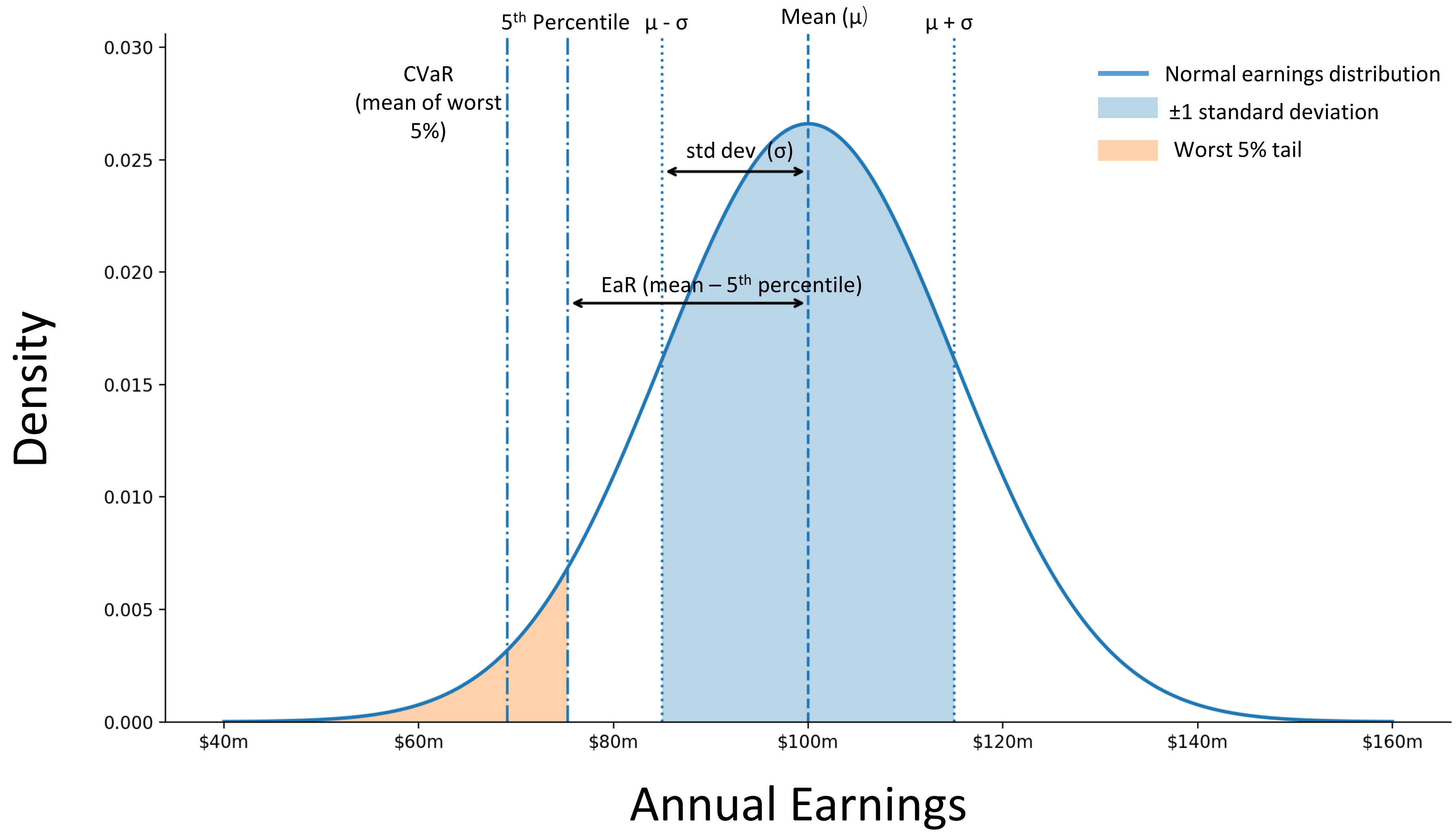




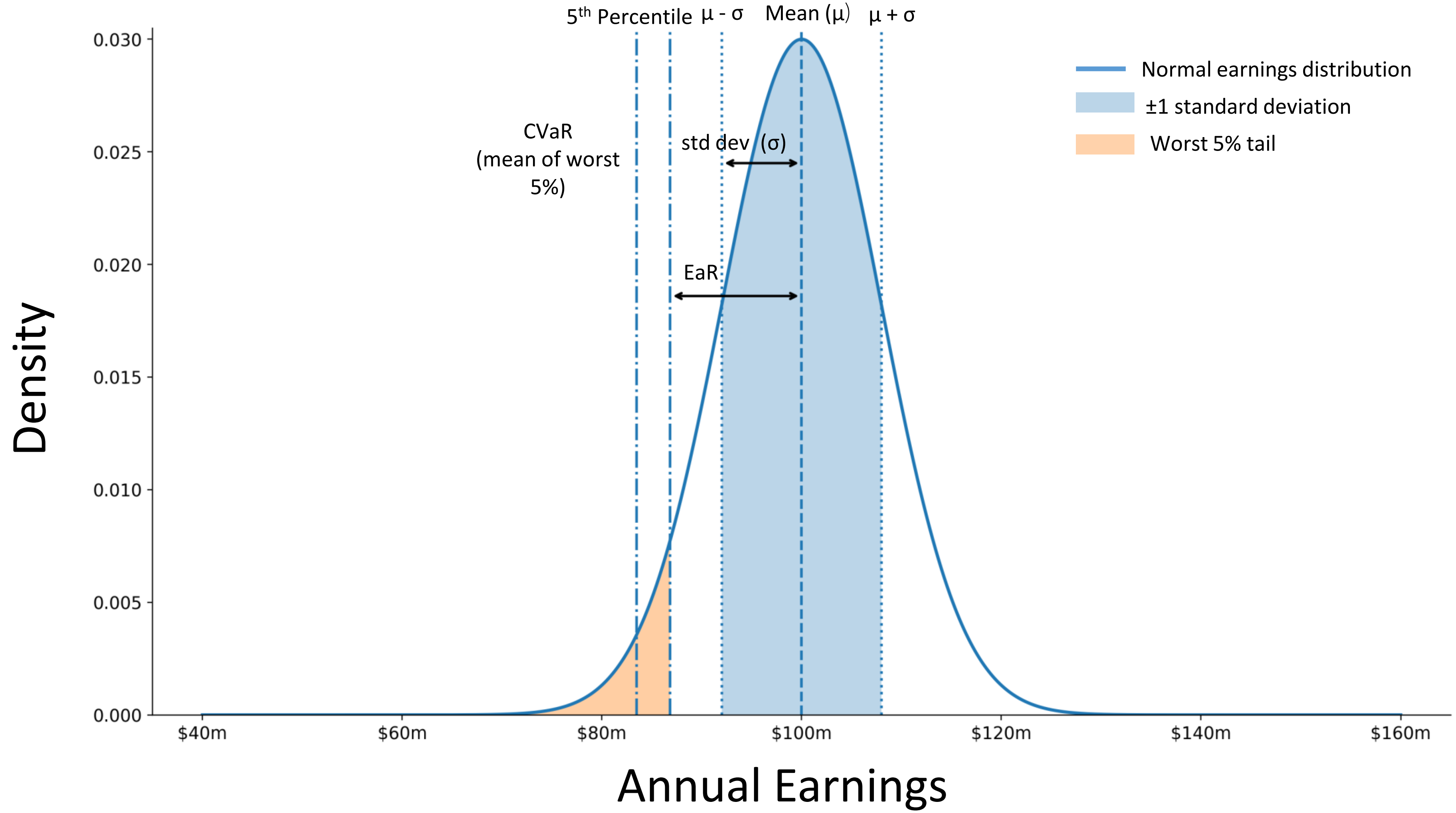
NSW price duration curve



Focusing on annual earnings distribution of wind farms



And how hedging can compress the distribution of earnings



ESEM – contract representation

Wind index

Region Wind sent-out generation/ Region Wind installed capacity

Contract	Hedge PnL per period	Fair-value strike
Shape swap	$q \times c^{idx}_{y,h} \times N \times \Delta t \times \left(K^{shape} - \pi_{y,h}\right)$	index DWA ($/MWh)
Revenue swap	$q \times N \times \Delta t \times \left(K^{rev} - c^{idx}_{y,h} \times \pi_{y,h}\right)$	mean index revenue per MW/h
RoP PPA	$q \times c^{proj}_{y,h} \times N \times \Delta t \times \left(K^{RoP} - \pi_{y,h}\right)$	project DWA ($/MWh)

DWA swap (shape swap)

Index MWh x spot price (per dispatch interval)

PROJECT (hedge seller) — *Floating – project pays* → COUNTERPARTY (hedge buyer)

COUNTERPARTY (hedge buyer) — *Fixed – counterparty pays* → PROJECT (hedge seller)

Index MWh x strike price (per dispatch interval)

Revenue swap

Index revenue ($/MW) x capacity

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Strike ($/MW) x capacity

Run of Plant PPA

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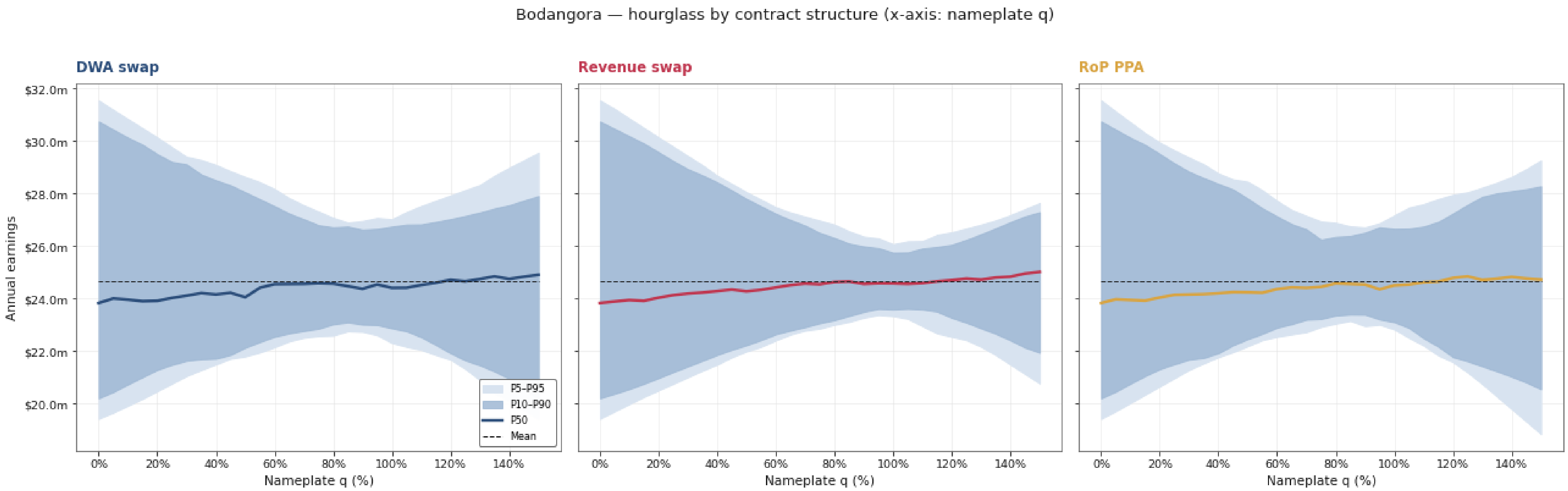
Earnings distributions with increasing contract cover - Bodangora



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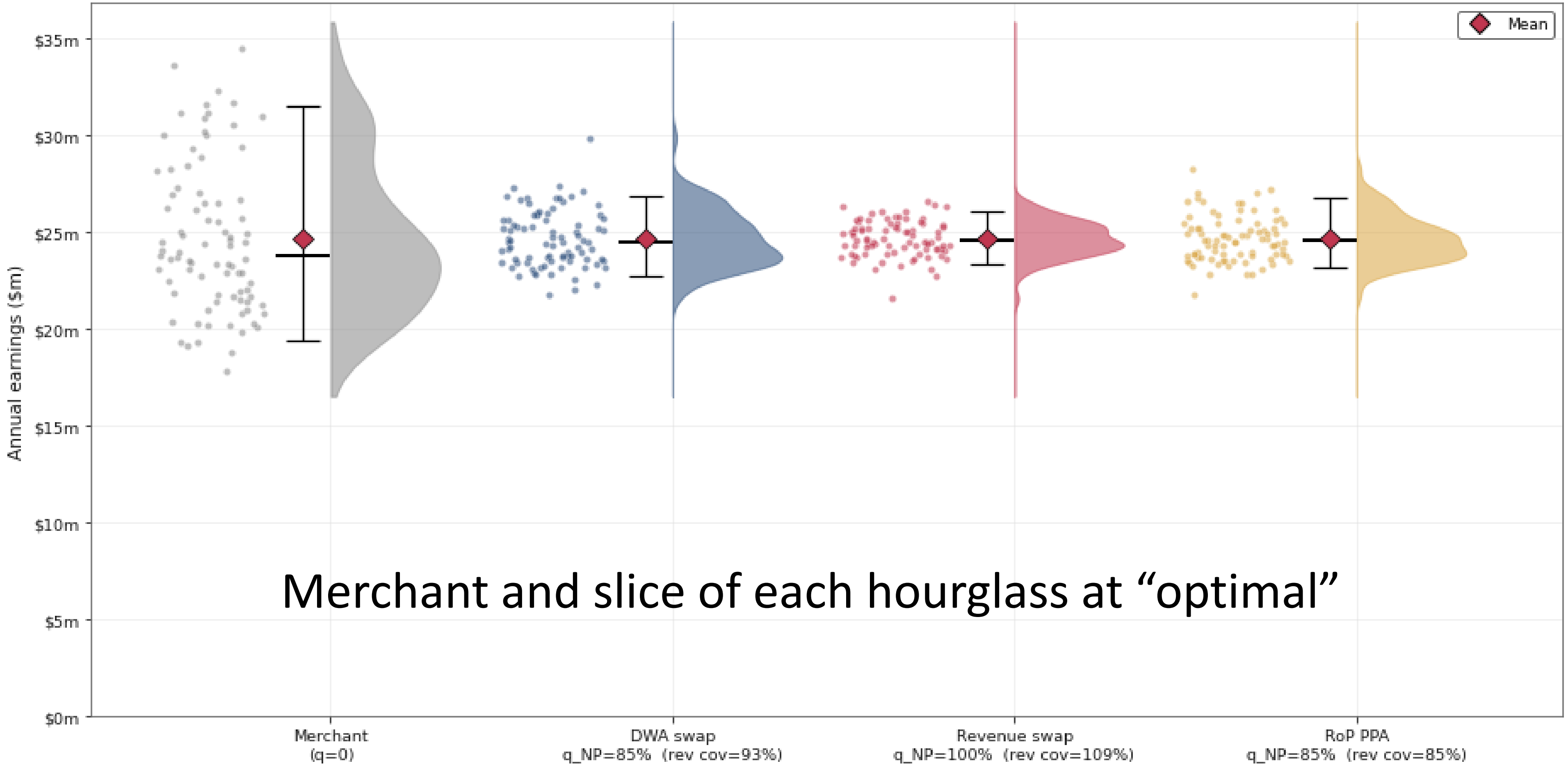
Earnings distributions with each contract type - Bodangora



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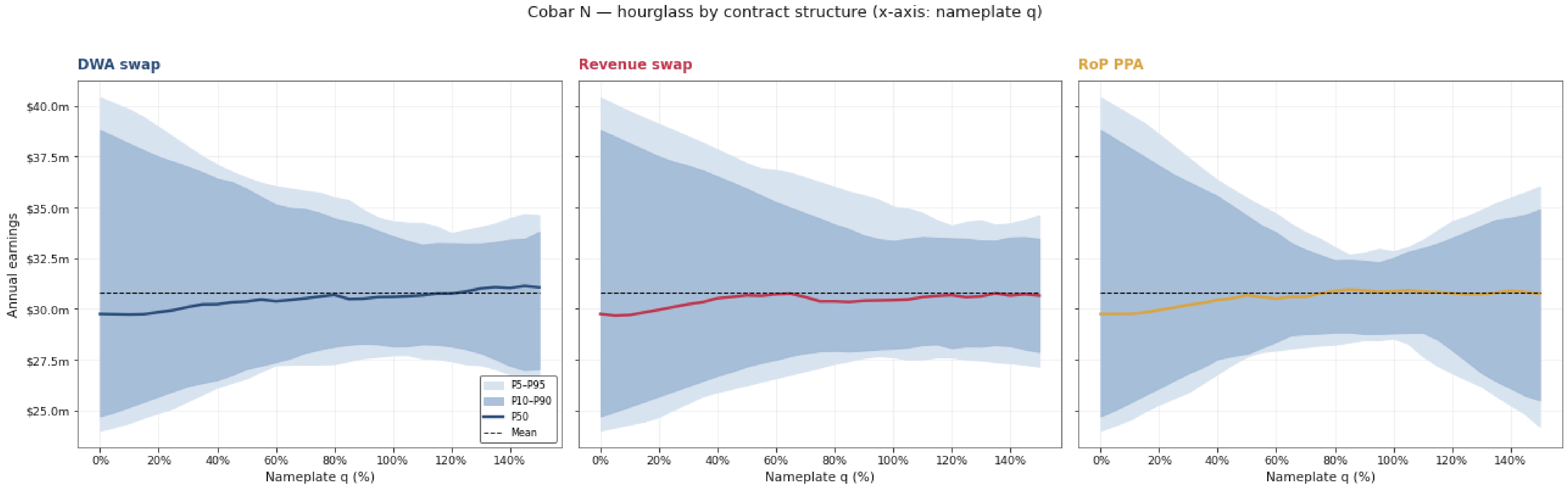

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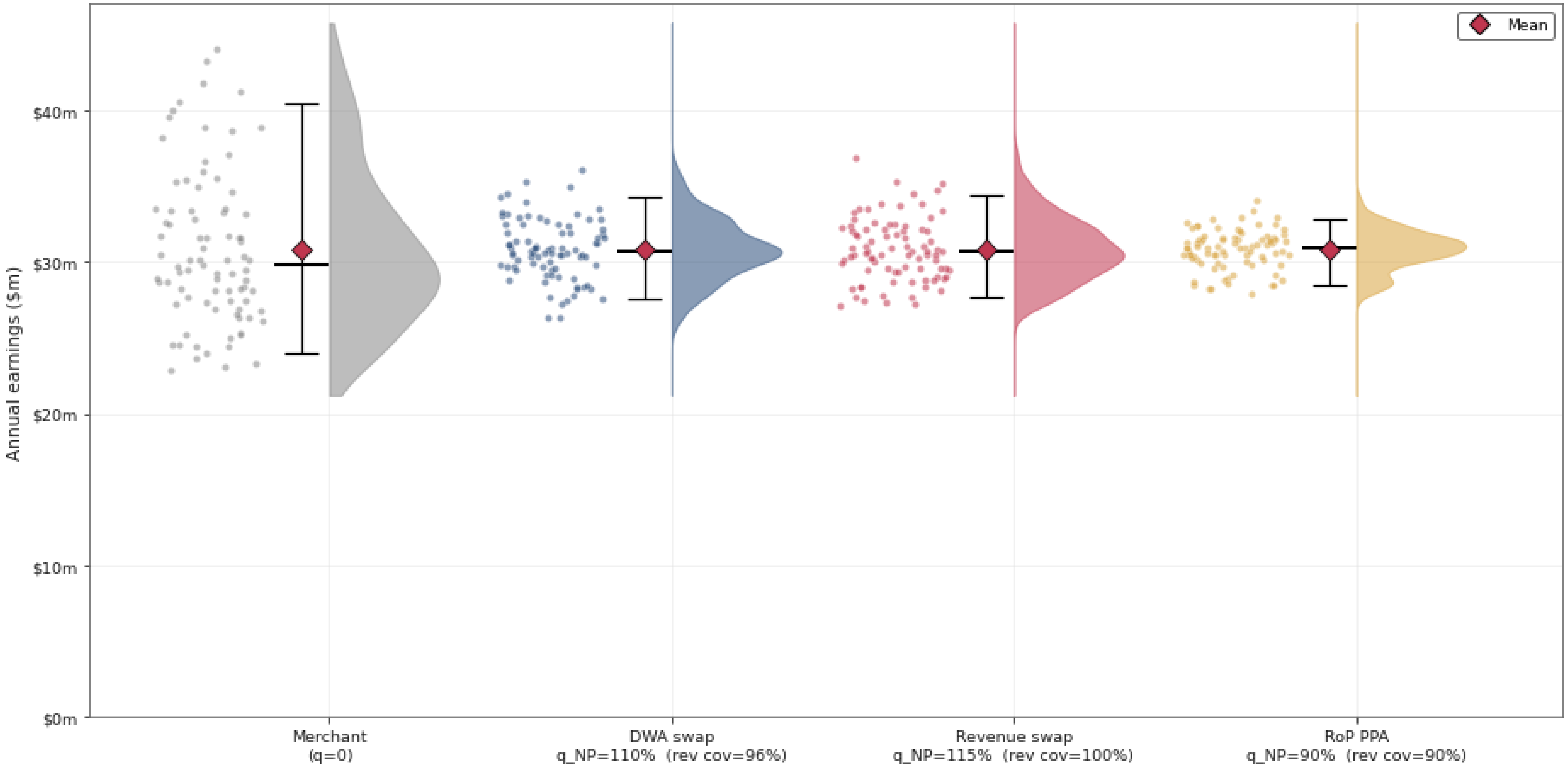

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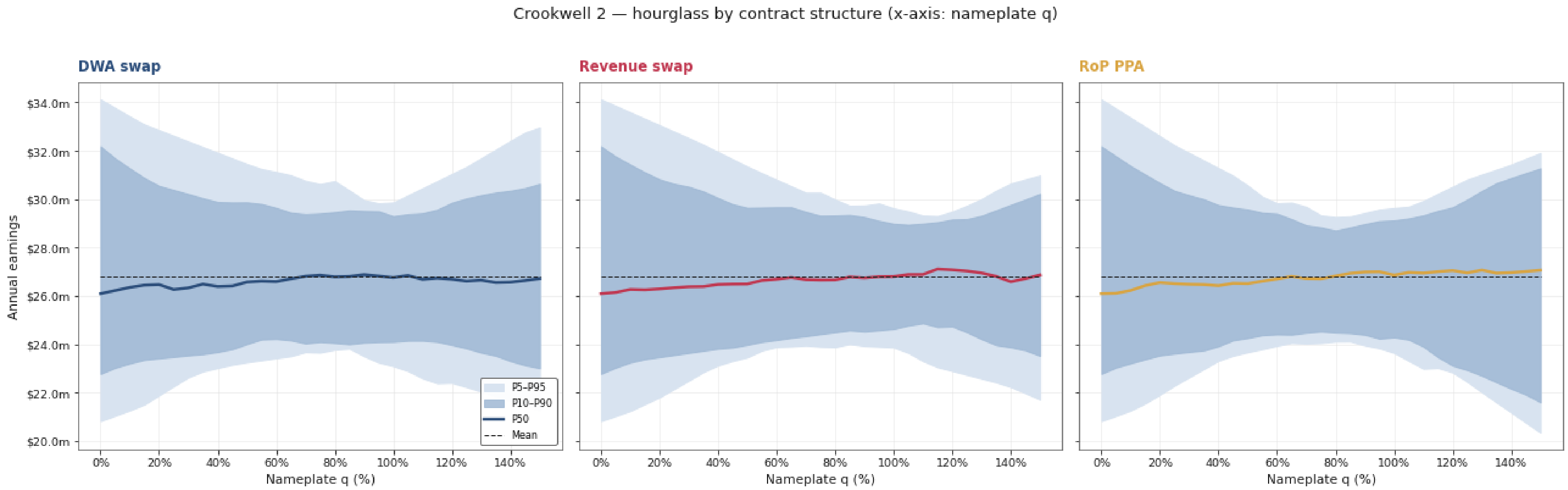

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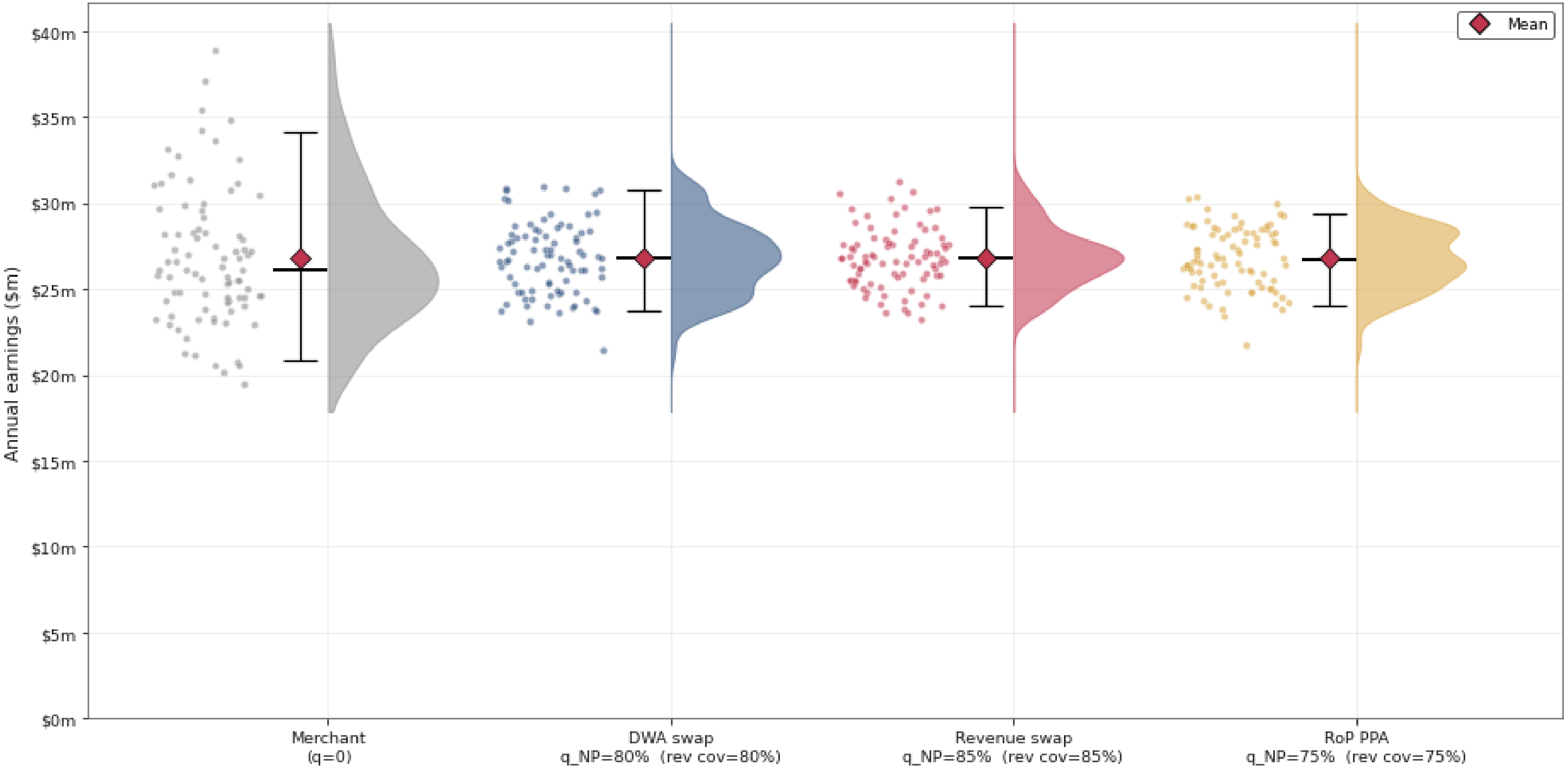

Key Takeaways

- Fungible ESEM contracts can materially hedge wind farm earnings risk.
- The revenue swap is generally the stronger fungible hedge.
- The right contract level is an earnings hedge ratio not a physical coverage ratio.

ESEM contracts work as earnings hedges → Revenue swaps generally hedge more completely → Contract sizing should be based on earnings risk, not nameplate.

QUESTIONS

Tahlia Nolan

Tahlia.Nolan@griffithuni.edu.au

Supervisors:

Professor Magnus Soederberg

Associate Professor Tim Nelson

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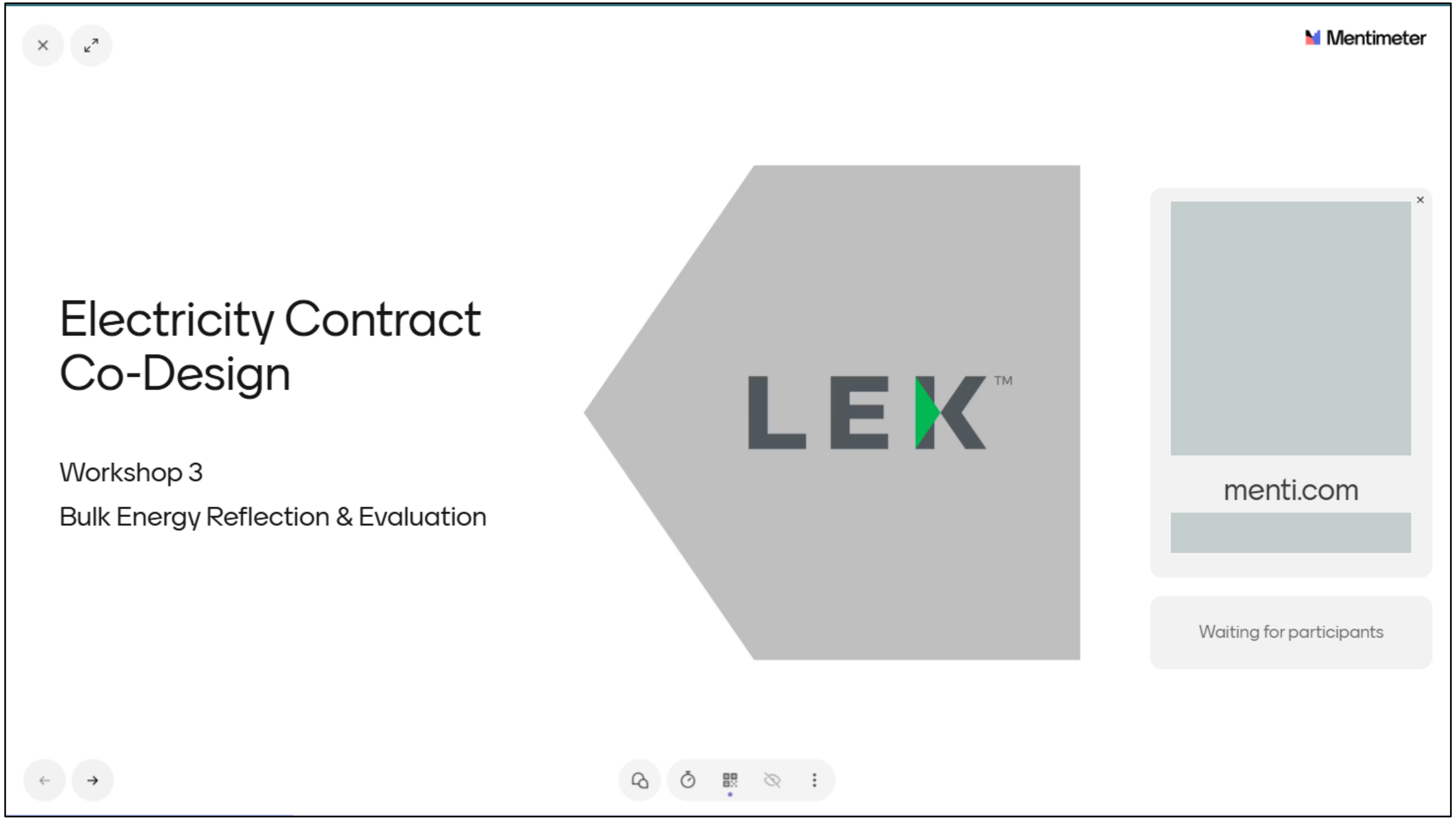
We want to understand if your views have changed



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ESEM Contract Co-design Workshop 3B

Friday 4 September 2026, 8:45am – 5:00pm
L.E.K. Consulting
Level 26, 88 Phillip Street, Sydney 2000

For any queries please contact:

- Logistics: Ryan Wilson, ryan.wilson@dcceew.gov.au
- Workshops: Lucy Carter, l.carter@lek.com
  Jeff Forrest, j.forrest@lek.com