

Industry-led Electricity Contract Co-Design Consultation Paper

September 2026

Overview

The Electricity Contract Co-Design Working Group (**WG**) has been tasked with defining a small set of core derivative contracts that could underpin trading activities and the proposed Electricity Service Entry Mechanism (**ESEM**) and Market Making Obligation (**MMO**) for bulk energy delivery, shaping and firming services.

The WG was convened in May 2026 and is expected to deliver a final report and recommended contract structures in November 2026. Throughout the process, the WG has collaborated closely with industry, including through:

- Regular engagement with peak industry groups.
- Presentations from industry participants on key topics.
- A series of public webinars.
- The publication of workshop materials to support engagement.

The WG has now identified preferred contract structures for bulk energy, shaping and firming services, and is inviting formal public feedback. The consultation process is being undertaken to obtain targeted feedback on key design features of the contract structures; and provide a wide range of stakeholders with the opportunity to provide feedback for consideration by the WG.

Further opportunities to input into the development of the electricity service contract structures will continue to be provided following this consultation process. This includes a continuation of the existing engagement activities prior to delivery of the Final Report and another round of formal submissions in response to the Final Report to support long-form contract drafting in 2027.

Consultation scope

The WG is seeking targeted feedback on key design features of each of the preferred electricity contract structures. Broader ESEM or MMO policy design and implementation matters are out of scope. These topics, which sit outside the development of the contract structures are not within the Terms of Reference of the WG or Contract Co-Design Process. Separate processes on these will be run by the Commonwealth Department of Climate Change, Energy, the Environment and Water NEM Review Implementation Taskforce (**NEMRIT**). Special tenders are also out of scope for this process, such as those that may be run in future for technologies including offshore wind and pumped hydro.

How to provide feedback

Industry stakeholders are encouraged to provide feedback via the [dedicated portal](#) by 17:00 AEST, 2nd October 2026.

How your feedback will be used

Industry feedback will be reviewed, analysed and considered by the WG in further developing their preferred contract structures and recommendations within their Final Report due to be delivered in November 2026. Following the consultation, the WG will also release a summary of the feedback received.

Indicative Timeline

	Sep			Oct				Nov				Dec				Further design and long-form drafting to occur in CY27.
W/C	14/9	21/9	28/9	5/10	12/10	19/10	26/10	2/11	9/11	16/11	23/11	30/11	7/12	14/12	21/12	
Workshop 3b																
Industry Consultation Period																
Workshop 4																
Workshop 5																
Prepare Stage 1 Final Report																
Government decision making and planning																

Summary of Consultation Questions

The WG is seeking targeted feedback from industry stakeholders on the following:

Reference PPA:

1. Is the proposed contract structure suitable for a range of bulk energy technologies?
2. Does a cap on spot price exposure aligned to the strike price of the firming product (e.g. \$600\$/MWh) appropriately balance risks for sellers and buyers?
3. Is a negative price provision required for the proposed contract, noting it is settled against the Reference Fleet's performance and LGCs / REGOs are not included in swap? If so, is a volume knock-out (no settlement during negative price periods) or a \$0 price floor more preferable?
4. Does the proposed design of the Reference Production Index appropriately balance risks for sellers (primarily basis risk) and buyers (long-term value of the product)?

Dynamic Time of Day Block Spread Swap:

5. Does the proposed approach to determining charge/discharge periods on a day ahead basis, using residual demand calculation, appropriately balance operational risks/simplicity with long-term value?
6. Does the use of AEMO's forecast data to determine shaping periods result in any material risks to the usability of this contract over the long-term?
7. Does the proposed approach of determining nominations at 4pm on a day ahead basis pose any material operational risks?
8. Does the proposed Daily Shaping Period that commences at the Trading Interval ending at 09:05 and finishes at the Trading Interval ending at 09:00 the following day pose any material operational risks?

\$600 Cap:

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

Common Contract Features:

10. Are there any concerns with the proposed weekly settlement approach, aligned to the AEMO settlement calendar?
11. Are alternate approaches to manage FM risk exposure (outside of the contracts) required to support the entry of new assets?

Overarching feedback:

12. Do the proposed contract structures achieve the WG's Terms of Reference and perform well against the identified evaluation criteria?
13. Are there any concerns with the ability of the contract structures proposed to be subject to a Market Making Obligation (MMO) in the future?
14. Will the proposed contract structures, in conjunction with other risk management contracts, such as flat swaps, evening peak swaps or caps, be effective for buyers (e.g. retailers, large loads, etc.) to manage financial risks?

Background

The ESEM

The final report of the National Electricity Market (NEM) Wholesale Market Settings Review (**the NEM Review**), delivered in December 2025, recommended that Energy Ministers should establish the ESEM within the National Electricity Law (**NEL**) and National Electricity Rules (**NER**) to facilitate investment in the NEM and solve for the ‘tenor gap’ between customer contracting and new entry investment windows.

The NEM Review Final Report recommended that:

- The ESEM should be used to procure bulk energy, shaping and firming services.
- The ESEM should allow new electricity service providers to compete for standardised, fungible contracts. These contracts would offer stable income streams tied to the delivery of defined electricity services, helping providers finance new projects. DCCEE has prepared a [fact-sheet](#) on the importance of fungibility as a core part of the NEM Review’s recommendations.
- Contracts should not be issued for the years a project is able to secure them in-market. Rather, contracts should be issued for the later years of a project’s life, allowing electricity service providers to sell their output to retailers or commercial and industrial (C&I) users for the period of time that the market can manage risks effectively.
- The standardised, fungible contracts should be sold back into the market at the point in time that allows retailers and C&I users to manage energy market risk, supporting retail competition.

Further information on how both the ESEM and MMO function together to support an efficient and liquid electricity market can be found in Section 4 of the [NEM Review Final Report](#).

Contract Co-Design Process

The NEM Review Final Report recommended convening an industry-led co-design process to define a small set of core derivative contracts that could underpin trading activities and the proposed ESEM and MMO for bulk energy delivery, shaping and firming services. A WG of 11 industry specialists with diverse perspectives, representing a range of market participants was convened in May 2026. The WG was appointed by a Convening Group (**CG**) comprised of representatives from the Commonwealth Department of Climate Change, Energy, the Environment and Water NEM Review Implementation Taskforce (**NEMRIT**), AusEnergy Services Limited (**ASL**) and the Australian Energy Regulator (**AER**) as an observer (collectively the CG).

The WG’s Terms of Reference are contained within the [Industry-led Electricity Contract Co-Design - Interim Guidelines and Procedures](#).

Current Status

The WG first met in May 2026 and is aiming to deliver a final report and proposed contract term sheets in November 2026:

- In **Workshop 1**, the WG defined the contract evaluation criteria and the long-list of contract structures for consideration.
- In **Workshop 2**, the WG short-listed contracts and identified key areas for further consideration.
- In **Workshop 3**, the WG considered analysis undertaken and selected preferred contract structures for each of the services.
- In **Workshop 3b**, the WG considered key features of the bulk energy and shaping contracts in further detail to help refine product sheets for industry consultation.

The meeting minutes and key materials from each workshop can be found on [ASL’s website](#).

The WG is continuing to progress the design of the preferred contract structures ahead of delivery of the final report in November 2026. Further design and long-form drafting is anticipated to occur in 2027, prior to the launch of the first ESEM tender, anticipated to occur in late 2027 (subject to approval by ECOM and the passing of relevant legislation and rules on time).

Contract Evaluation Criteria

The WG agreed the following contract evaluation criteria. Fungibility is not listed as an evaluation criteria, as it is a core requirement of the WG's ToR.

Bankable:	• Supports reasonable financing terms for new projects.
Operationally achievable:	• Can be readily implemented in a real-world setting.
Efficient at allocating risks:	• Assigns risks to buyers and sellers based on who is best placed to manage, and thus preserves incentives for optimal investment/operational decisions.
Attractive for sellers & buyers:	• Will support the entry of new electricity service providers and could be attractive to energy buyers seeking to manage their portfolios.
Adaptable to the future market:	• Will continue to perform as intended as market conditions change in future.
Complementary within a set:	• Works as part of a set of standard contracts which could, by themselves or when integrated with secondary market contracts, be used to efficiently hedge customer load.
Simple to value:	• Sellers and buyers can confidently determine a price to ascribe to the contract.

Overview of Preferred Contract Structures

The WG has selected the following preferred contract structures:

Bulk Energy

Regional Reference PPA

A swap based on the dispatched volume of the regional Reference Fleet that provides buyers with a hedge based on a regional technology (e.g. wind or solar) shape and renewable sellers with long-term price certainty.

Shaping

Dynamic Time of Day Block Spread Swap

A dynamically set swap that contracts the difference between daily low-price charge periods and high-price discharge periods, providing buyers with a hedge against intra-day volatility and sellers with long-term revenue certainty.

Firming

\$600 Cap Contract

A cap with a \$600 strike price that provides buyers with insurance against high-priced events and sellers with long-term, stable cash-flows and ability to retain some merchant revenues under the cap.

Bulk Energy: Regional Reference PPA (RRPPA)

Overview of proposed contract structure

The RRPPA is a swap-based product where the contract volume is determined by the performance of all projects within a regional reference fleet, rather than that of the individual project. This reduces buyers' exposure to project-specific volume risk, while retaining incentives for the sellers to outperform the reference fleet.

A core feature of the RRPPA is the Reference Production Index, which determines the contracted volume in each trading interval. The Reference Production Index is set by the performance of the Reference Fleet, which contains all Operational projects of the specified Technology within the specified NEM Region with a Nameplate Capacity of 30MW or greater. The design includes mechanisms to manage changes to the Reference Fleet over time, balancing risks for both buyer and seller.

The WG's current position is to include a price cap mechanism, with its preferred position being a cap on the Floating Price equal to the Firming Product strike price (\$600/MWh is the preferred position). The WG considers this approach strikes an appropriate balance between the reduced value of the Bulk Energy product and the reduction in downside exposure risks for sellers.

The WG is also considering the need for negative pricing provisions to incentivise efficient dispatch. Options under consideration include a 'knock-out' mechanism, where the volume of swap is set to zero for any negative price intervals, and a 'price floor' that limits buyer payments during negative price intervals.

Further detail of the proposed RRPPA contract structure and Reference Production Index are provided in Attachment A.

Supporting Rationale

Compared with alternative contract structures, the WG considers the RRPPA most efficiently shares volume, price and shape risks between the seller and buyer according to who is best placed to manage them. Buyers retain exposure to system wide risks reflected in the index, while sellers manage idiosyncratic risks. Unlike the DWA Price Swap, the RRPPA does not require sellers to defend a fixed contract volume, which is a material bankability issue for variable renewable generators.

The WG considers a Reference Production Index based on actual dispatched generation best balances buyer and seller requirements of the product over the long-term contract tenor.

Key Areas for Feedback

The WG is seeking feedback from industry stakeholders on the following:

1. Is the proposed contract structure suitable for a range of bulk energy technologies?
2. Does a cap on spot price exposure aligned to the strike price of the firming product (e.g. \$600/MWh) appropriately balance risks for sellers and buyers?
3. Is a negative price provision required for the proposed contract, noting it is settled against the Reference Fleet's performance and LGCs / REGOs are not included in swap? If so, is a volume knock-out (no settlement during negative price periods) or a \$0 price floor more preferable?
4. Does the proposed design of the Reference Production Index appropriately balance risks for sellers (primarily basis risk) and buyers (long-term value of the product)?

Shaping: Dynamic Time of Day Block Spread Swap

Overview

The Dynamic Time of Day (ToD) Block Spread Swap works by defining charge (low-price) and discharge (high-price) periods for each day and comparing the difference in prices between those periods (realised spread), against an agreed fixed spread. Settlement is based on the difference between those two values and the contracted volume. The actual charge/discharge behaviour of the underlying asset does not impact the contract settlement.

Charge and discharge periods are determined using day-ahead forecasts of Residual Demand, providing sellers and buyers with visibility to support operational decisions. To help maintain long-term value (i.e. by hedging both morning and evening peaks), the product can have up to two charge and two discharge blocks each day, with each block lasting at least 30 minutes.

Further detail of the proposed Dynamic ToD Block Spread Swap contract structure is provided in Attachment A.

Supporting Rationale

The WG preferred the Dynamic ToD Block Spread Swap because it enables buyers to manage exposure to daily wholesale price volatility through a fixed spread, while providing sellers with a predictable revenue stream through contract premiums.

The WG's preferred approach uses dynamically determined charge and discharge periods rather than fixed time blocks, as this was considered to better reflect changing market conditions and is expected to provide a more effective long-term hedge for buyers.

Key Areas for Feedback

The WG is seeking feedback from industry stakeholders on the following:

5. Does the proposed approach to determining charge/discharge periods on a day ahead basis, using residual demand calculation, appropriately balance operational risks/simplicity with long-term value?
6. Does the use of AEMO's forecast data to determine shaping periods result in any material risks to the usability of this contract over the long-term?
7. Does the proposed approach of determining nominations at 4pm on a day ahead basis pose any material operational risks?
8. Does the proposed Daily Shaping Period that commences at the Trading Interval ending at 09:05 and finishes at the Trading Interval ending at 09:00 the following day pose any material operational risks?

Firming

Overview

The WG identified the \$600 cap as the preferred contract structure for the firming service. The cap contract provides greater certainty over buyer and seller cash-flows, with buyers receiving insurance against high priced events and sellers receiving more stable cash-flows to support bankability.

Further details of the proposed \$600 cap contract structure are provided in Attachment A.

Supporting Rationale

The WG noted that cap contracts are a well-established product in the NEM. A \$600/MWh strike price was preferred because it allows sellers to retain greater merchant revenue opportunities under the cap, which is expected to reduce required premiums while preserving value for buyers. The \$600/MWh level also aligns with the current Administrative Price Cap setting, limiting buyer exposure in prolonged high-price events.

Key Areas for Feedback

The WG is seeking feedback from industry stakeholders on the following:

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

Common Contract Features

Contract Settlement

The WG proposes that contracts will be settled in accordance with AEMO's settlement calendar. A weekly settlement is preferred to allow buyers and sellers to efficiently manage prudential risks.

Force Majeure

Most recent investment in new generation in the NEM has been enabled under long-term offtakes using physical products tied to the specific asset that often contain asset specific FM relief regimes. In contrast, the ESEM will use fungible financial products that are not tied to the underlying asset. The transition from physical products to financial products has implications for how Force Majeure risk is handled.

The NEM Review Final Report recommended that proponents should be able to buy back their sold positions either in market or from the ESEMA. Using this mechanism proponents can manage FM events by hedging their financial contracts. The WG is considering whether this may be insufficient or inefficient and if there is a need for an additional mechanism, for instance a pooled insurance approach managed alongside the ESEM agreements.

Key Areas for Feedback

The WG is seeking feedback from industry stakeholders on the following:

10. Are there any concerns with the proposed weekly settlement approach, aligned to the AEMO settlement calendar?
11. Are alternate approaches to manage FM risk exposure (outside of the contracts) required to support the entry of new assets?

Overarching Feedback

Key Areas for Feedback

The WG is seeking feedback from industry stakeholders on the following:

12. Do the proposed contract structures achieve the WG's Terms of Reference and perform well against the identified evaluation criteria?
13. Are there any concerns with the ability of the contract structures proposed to be subject to a Market Making Obligation (MMO) in the future?
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Attachments and Reference Materials

- **Attachment A:** [Draft product sheets](#)
- Electricity Contract Co-Design: [Interim Guidelines and Procedures](#)
- Electricity Contract Co-Design: [Workshop Materials and Minutes](#)
- National Electricity Market Wholesale Market Settings Review – [Final Report](#)
- DCCEEW Fact-Sheet on Fungible Contracts: [DCCEEW Fungibility Fact Sheet](#)

Important Notice

Disclaimer

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