

NEM Wholesale Market Settings Review

Submission to the Draft Report

Submitted by: Ashley Bradshaw

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Feedback on NEM Wholesale Market Settings Review Draft Paper

Dear Tim, Paula, Ava and Phil (the Panel):

Energy Consumers Australia (ECA) is the national voice for household and small business energy consumers. We advocate for a fair, affordable, and reliable energy system—one that meets everyone's needs and leaves no one behind on the journey to net zero. We welcome the opportunity to contribute further to the Panel's review and commend the Panel's thoughtful and inclusive approach to engagement throughout this process.

ECA broadly supports the recommendations outlined in the draft report. In particular, we endorse the proposed Entry Support and Efficiency Mechanism (ESEM), especially its:

- focus on maintaining market liquidity while addressing investment gaps; and
- technology-neutral design.

We recognise that the ESEM is one component of a broader reform agenda. Coordination across related reforms, such as transmission planning, reliability settings, and CER integration, is essential to ensure that mechanisms work together efficiently and deliver coherent outcomes for consumers. Consumers' long-term interests are best served when investment in the energy system is both prudent and efficient.

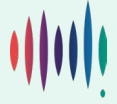
Consumer Energy Resources (CER) represent a viable opportunity to deliver investment at pace and at scale. As CER adoption continues to rise, it has the potential to defer or avoid large-scale transmission and generation investments by providing localised energy and system services.

If investment decisions do not fully account for the pace and potential of CER uptake - particularly the rapid deployment of small-scale batteries - there is a risk of committing to large infrastructure projects that may later prove unnecessary. This could result in inefficient spending, higher costs for consumers, and destroyed social licence for the transition.

As such, we welcome the Panel's recognition of the growing role of CER in shaping the future of the NEM. ECA strongly agrees that CER can play a critical role in improving system efficiency, reducing costs, and avoiding unnecessary investment. Importantly, CER can simply improve consumer sentiment towards the energy system by giving consumers a sense of control over how they use energy.

We see merit in the Panel's proposal to improve the visibility and dispatchability of CER, and its intention to enable aggregators to participate in mechanisms like the ESEM. As noted, consumers through the intelligent use of their resources can benefit from the market and improve the market's overall efficiency. Sensible reforms that enable this benefit-sharing and improved market efficiency are warranted, assuming that consumer choice remains pre-eminent (as the Panel indicates it will).

We also agree with the Panel's observations on the importance of network tariffs in shaping how Consumer Energy Resources are used by consumers. Network tariff design plays a critical role in influencing retail products and consumer decisions, particularly in relation to how CER would be used in relation to peak demand and driving system efficiency. As such, we welcome further discussions by the Panel on network tariffs in the Final Report.



Given our support for the Draft Report's direction, our submission offers recommendations to ensure that final decisions are robustly justified and demonstrably in the long-term interests of consumers.

We recommend that the Final Report:

1. Clarify governance of the ESEM, ensuring that consumer interests are pre-eminent in determining the amount of capacity to procure if consumers are to pay all ESEM costs.

There is a clear risk that governments (and potentially market bodies) will be overly conservative if they determine the volume of capacity to procure. In such an instance, consumers will buy more energy through the ESEM than is efficient or prudent and pay more for the transition than needed. If consumers are the ultimate financier of the ESEM, then its governance needs to focus on consumers long-term financial interests.

2. Identify and find ways to mitigate additional risks emerging from the ESEM.

In addition to volume risk, there are several other risks emerging from the ESEM's design. These include tenor, credit exposure, falling technology costs, and resale value of hedges if (as the Panel suggests) these instruments evolve. The Final Draft should identify how these risks will be mitigated.

3. Provide greater clarity on how ESEM costs would be allocated to consumers.

The Draft Report outlines the broad model and contract structure, but does not detail, or suggest how costs would be recovered from consumers. Greater transparency will help build confidence that the mechanism is cost-effective and equitable for all consumers. It could also inform policymakers of the potential need for complimentary measures to reduce the burden on certain consumers.

4. Recommend the establishment of an independent body to advise on the future of wholesale market price settings.

Given the role of the ESEM to create signals for new investment, it is not clear why the market price settings should continue to be linked to "revenue adequacy for efficient investment" as stated (p. 111). Indeed, while we applaud the ESEM, we think its introduction requires a more formal and thorough review of the market price settings (ideally one as thoughtful and collaborative as the NEM Review Panel). Accordingly, ECA recommends the establishment of an independent entity to assess and advise on necessary changes to price settings if the ESEM is introduced.

To support our submission, we attach an independent report by Finncorn Consulting. If you have any questions, please contact Ashley Bradshaw at ashley.b@energyconsumersaustralia.com.au.

Yours sincerely

Brian Spak
GM, Advocacy and Policy

**The national voice for residential and
small business energy consumers**



PO Box A989,
Sydney South NSW 1235
T 02 9220 5500

energyconsumersaustralia.com.au