

National Electricity Market (NEM) Review

Draft report and recommendations

Tim Nelson
Paula Conboy
Ava Hancock
Phil Hirschorn

NEM Review scope

Out of scope

Fuel Markets

Carbon markets

Planning assessment

Core scope

Short-term spot markets (real time to days)

Medium-term derivatives markets (Days to ~ 3 years)

Long-term investment markets (~3 to 30 years)

Including
CER, DER,
and demand
participation
in these
markets

Consider interlinkages

Network tariffs

Retail pricing

Out of scope

Other network

Other retail

The National Electricity Market is intended to connect the physical and financial electricity system across three time horizons...

Physical

Derivatives create incentive to physically deliver to financial contract

Forward view on derivatives prices signals the opportunity to build new plant

Spot Market

Spot prices vary to reflect supply/demand balance.

Derivative Markets (1-5 years)

Derivative markets allow buyers and sellers to manage risk.

Long-term (5 to 25 years)

Customers underwrite entry of electricity services through long-term contracts for portion of capacity

Financial

Spot price expectations drive valuation of derivative contracts

New generation creates supply of derivative contracts

... but challenges to the functioning are growing...

Physical

Revenue underwriting mechanisms block signals for physical optimisation

Rapid technology shift /
means foreseeable prices
not enough to signal
entry: the "Tenor Gap"

Spot Market

Weather dependency means prices more variable and volatile.
Hidden resources mean prices don't reflect supply demand balance

Derivative Markets (1-5 years)

Current suite of contracts losing relevance with changing technology in both generation and consumption

Long-term (5 to 25 years)

Not enough customers willing to underwrite new entry over long-enough horizon

Financial

Falling liquidity means derivative prices don't transparently reflect forward expectations

Current underwriting (e.g. CIS) mechanisms lock up supply of contracts

... leading to a suite of recommendations from NEM Review

Physical

for small retailers/
generators to the
derivative markets

for new physical entrants
by purchasing standard
contracts for later years

Spot Market

Retain spot market, and ensure price-responsive resources participation in price formation for efficient dispatch

Derivative Markets (1-5 years)

Stand-up a regular industry led codesign process to identify new standard derivative contracts

Long-term (5 to 25 years)

Establish an ESEM with market feedforward/feedback signals to ensure sufficient new entry across: bulk energy; shaping; firming

Financial

Implement a MMO and provide forward information to ensure liquidity / price discovery

Recycle contracts from
ESEM mechanism to create
a supply of standard
contracts

Major recommendation themes

The Panel has focused on reforms that: align with the **federated structure**; complement the **existing** wholesale market; target economic efficiency and deliver benefits for electricity users

Reforms to support the continued efficient operation of the **spot**market

Reforms to enhance price transparency and liquidity in the short-to-medium term derivatives market

Reforms to support **new investment** in the
services the NEM needs

Reforms to ensure consumers benefit

Focus for H2 2025

July/ August

September/ October

November/ December

2026 H1

Draft Report finalised and public consultation on draft recommendations commences

Prepare Spot Market Recommendations for handover to market bodies

Excessive rebidding and algorithmic bidding

Battery state of charge information

Transmission network outages

Derivative market liquidity and price transparency detailed design

Contract design

MMO features

Exchange access

ESEM detailed design

Contract recycling

Cost recovery

Governance arrangements

Draft NEL amendments



Final report and implementation roadmap

Subject to ECMC approval, embed ESEM in National Energy Law Market bodies progressing required reviews, rule changes and implementation



Questions?

Please reach out to

NEMReview@dcceew.gov.au

Reminder public submissions on the draft report close at 11:59 pm AEST on Wednesday 17 September 2025.