



Firm Energy Reliability Mechanism

What We Heard:

Stage Two Stakeholder Feedback Summary



FERM Stage Two Consultation – What We Heard

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Acknowledgement of Country

As guests here on Kaurna land, we acknowledge everything this department does impacts on Aboriginal country, the sea, the sky, its people and their spiritual and cultural connection which have existed since the first sunrise. Our responsibility is to share our collective knowledge, recognise a difficult history, respect the relationships made over time, and create a stronger future. We are ready to walk, learn and work together.

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Executive Summary

The Firm Energy Reliability Mechanism (FERM) seeks to promote secure, reliable and affordable electricity supply for South Australia, through ensuring there is sufficient long-duration firm capacity (LDFC) in the electricity system.

LDFC refers to the reliable, on-demand supply of electricity that can be delivered to the market for eight hours or more and is essential for maintaining grid stability. While South Australia is a world leader in managing a once in a generation step up in variable generation from renewable sources, the availability of LDFC is crucial for maintaining a reliable and secure electricity network. The challenge is to ensure that these sources of firming capacity can be supplied on-demand at an affordable price.

The South Australian Government has designed the Firm Energy Reliability Mechanism (FERM) to better achieve its reliability and resilience objectives as the market continues to transition to greater use of renewable technologies. The FERM aims to create a framework that uses appropriate market signals to ensure supply and demand are matched at competitive prices. It is a framework designed to provide South Australian households, small business and energy intensive industries with the confidence they need that the electricity system is being managed in a cost-effective way to deliver reliability and affordability throughout the state's transition to its net zero emissions goal and beyond.

The Department for Energy and Mining initially consulted on a high-level scheme concept in November and December 2024. Information gathered through that process helped to progress work on a more detailed design. In June and July 2025, the Department sought feedback on a refined scheme design and draft scheme regulations that, where possible, considered the feedback received through the previous consultation.

The FERM has been designed in close consultation with the National Energy Market (NEM) wholesale market review (NEM Review), led by the Commonwealth Department of Climate Change, Energy, Environment and Water, which has been progressing in parallel with the South Australian efforts to address current system challenges.

This document summarises feedback received during the second round of consultation on the FERM. These submissions represent a diverse cross-section of stakeholders from sectors such as energy and utilities, oil, gas, and mining, government and regulatory bodies, as well as individual contributors.

Analysis of the feedback identified numerous common issues or viewpoints raised by multiple stakeholders. The analysis also highlighted that in some instances, or in relation to some issues, different market segments often expressed varying, and sometimes opposing, views or positions.

Many of these comments identified the competing tensions in transitioning toward a net zero emissions goal, the interaction with the ongoing NEM Review, and the absolute necessity of transparency and clarity in designing a well-balanced market mechanism. The Government

has reviewed these comments and formulated appropriate responses throughout this summary to explain how the final design has adapted to this feedback.

The feedback obtained through this process has also informed the final scheme design and *National Electricity (South Australia) (Firm Energy Reliability and Orderly Exit Management) Regulations 2025* (FERM Regulations), released on 18 September 2025.



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1. Introduction

South Australia is a world leader in managing the transition of its electricity market to accommodate an increasing reliance on renewable sources of energy generation. With variable energy sources now dominating the market, the State is now on track to reach its goal of 100 per cent net renewable electricity generation by 2027.

This global leadership has not been without its challenges and as front runner in the energy transition South Australia has looked to develop and implement innovative policy responses to ensure a reliable, secure and affordable energy system.

As the State moves closer to reaching its ambition for net zero emissions, the Government of South Australia has developed a framework to support the provision of long duration firm capacity (LDFC), reliable, on-demand electricity that can be delivered to the market for eight hours or more and that is not dependent on weather. Such a framework will enable the State to continue its remarkable energy transformation and ensure available, competitively priced LDFC to underpin a reliable and resilient power system.

Core design principles of the framework were to develop a scheme that could operate independent of government, that increased certainty about the timing of existing capacity exiting the market, that reduced barriers for long-lead time LDFC projects to enter the market, that provided revenue certainty in a manner that also benefitted consumers, and that was sufficiently agile to respond to market volatility.

The Department for Energy and Mining (DEM or the Department) initially consulted on a high-level concept design that sought to achieve these objectives. The Stage One consultation, held in late 2024 and hosted on both the Government of South Australia's central consultation website, [YourSAy.sa.gov.au](https://www.yoursay.sa.gov.au), and the DEM website, outlined the case for action and proposed a governance framework and scheme design. The more than 50 written submissions received by the Department are available on the [DEM website](#).

During the first half of 2025, the Department further developed the concept into a detailed scheme design. Where possible, the detailed design reflected stakeholder input received during the Stage One consultation, noting that on many individual issues, stakeholders provided views on a spectrum, from support to opposition.

In June and July 2025, the Department held a second round of consultation on the detailed design and draft scheme regulations. This Stage Two consultation was again hosted on both the YourSAy and DEM websites.

Stage Two consultation materials included a discussion paper that explored key scheme design decisions, including an explanation of how stakeholder feedback helped to inform these decisions, as well as draft scheme Regulations, draft scheme Ministerial Guidelines that provided information regarding the practical operation of the scheme, and a draft term sheet that provided proposed scheme contract terms (see Table 1: Stage Two consultation materials).

FERM Stage Two Consultation – What We Heard

The Stage Two consultation attracted a high level of engagement from interested stakeholders – the YourSAy website achieved 836 webpage visits with 530 downloads of the Consultation Paper, 183 downloads of the draft Minister’s Guidelines and 163 of the draft contract term sheet.

The online consultation was supported by two industry briefing sessions with Q&A - an in-person session attended by nearly 40 people on 25 June 2025 and an online forum with nearly 130 participants on 27 June 2025. Additionally, the Department hosted more than 10 briefing sessions with key industry stakeholders.

Table 1: Stage Two consultation materials

Document	Link
Stage Two Consultation paper	https://yoursay.sa.gov.au/101425/widgets/465781/documents/311067
Draft FERM Regulations	https://yoursay.sa.gov.au/101425/widgets/465781/documents/311115
Draft FERM Ministerial Guidelines	https://yoursay.sa.gov.au/101425/widgets/465781/documents/311115
Draft FERM Terms Sheet	https://yoursay.sa.gov.au/101425/widgets/465781/documents/311070
Industry Briefing Presentation	https://yoursay.sa.gov.au/101425/widgets/465781/documents/312344

More than 30 written submissions were received to the Stage Two consultation from a broad cross section of energy industry participants and business and consumer representatives. Stakeholders again generally expressed broad support for the scheme while also providing targeted feedback on specific issues. A list of organisations that provided written feedback can be found in Table 2: Stage Two consultation respondents.

FERM Stage Two Consultation – What We Heard

Table 2: Stage Two consultation respondents

Australian Financial Market Association (AFMA)	Akaysha Energy	Altina Energy
Alliance of Long Duration Storage (LDES) companies	AMPYR Australia Pty Ltd	AGL Energy Limited
APA Group	ATCO Australia	Australian Energy Council
Australian Pipelines and Gas Association (APGA)	Bridge Energy	EDF Australia
Ekus Energy Australia	ElectraNet	Energy Australia
Energy Dome	Energy Efficiency Council	Energy Users Association Australia (EUAA)
Engie	Genaspi Energy Group	Hydrostor*
Iberdrola Australia	LD Energy	Neoen
Origin Energy	Raygen	South Australian Business Chamber
South Australian Council of Social Service (SACOSS)	South Australian Chamber of Mines & Energy (SACOME)	South Australian Power Networks (SAPN)
Shell Energy*	Snowy Hydro	Sumitomo SHI FW*
Tesla	Vast Energy	Zen Energy

* submission marked as confidential

2. What We Heard

The Stage Two consultation sought feedback on 12 specific questions across four broad areas:

1. Scheme objectives and core principles
2. Scheme operation
3. Scheme obligations
4. Scheme Implementation.

The Stage Two consultation primarily sought to engage stakeholders on scheme design elements that were refined or amended following the concept stage (Stage One) consultation. It did not specifically seek further input on scheme design elements that were largely unchanged from the previous consultation.

This report summarises feedback received through the consultation, highlighting key themes raised by stakeholders in response to the consultation materials, as well as additional ideas proposed outside of the consultation questions.

Analysis of the feedback identified a range of common issues or viewpoints raised by multiple stakeholders. The analysis also highlighted that in some instances, or in relation to some issues, different market segments often expressed varying, and sometimes conflicting, views or positions.

The remainder of this section outlines the questions posed during Stage Two, the themes that emerged from the various stakeholders' feedback and the Department's responses.

1.1 Scheme Objectives and Core Principles

We asked: *Do you agree with our refined mission, objectives and core principles statements?*

What we heard about scheme objectives	Our response
<u>Potentially contradictory or misaligned objectives</u> Several stakeholders raised concerns about potential conflicts between the scheme's objectives, particularly the tension between retaining non-renewable generation assets and pursuing a 100% renewable energy target. Stakeholders cautioned that this misalignment could undermine the effective delivery of government goals, and recommended clearer prioritisation and reconciliation of objectives within the scheme design.	The Department acknowledges stakeholder feedback regarding the interaction of South Australia's emissions targets and the FERM. The Scheme has been designed to be technologically neutral and to maximise competition between different technology types. Eligibility criteria will enable participation by relevant technologies, whilst delivering on the core objective of ensuring sufficient LDfC, at least-cost to consumers. The FERM is intended to support the continued high penetration of renewable energy generation.
<u>Alignment with principles and frameworks</u> Several stakeholders called for stronger alignment between the draft regulations and the scheme's guiding principles, particularly around minimising consumer risk and ensuring revenue necessity. Stakeholders recommended clearly defining how the scheme's design supports the core principles.	
<u>System resilience and reliability</u> Some stakeholders questioned whether the current design adequately addresses South Australia's unique system challenges, including its high penetration of renewables and limited interconnections. Stakeholders recommended including more tailored resilience measures and clearer mechanisms for valuing reliability contributions in scheme design.	The Office of Technical Regulator's newly formed Planning and Forecasting function will continue to develop and refine methodologies for providing advice to the Minister on matters including those related to the Firm Energy Target (FET). The Scheme has also been designed to allow for eligibility and assessment criteria to be adjusted over time as required. It is envisaged that the Scheme Administrator's Guidelines will provide further clarity as to how different technology types will be assessed.

Next steps:

The Scheme objectives will be reflected in the detailed drafting in the Final Regulations, Minister's Guidelines, Regulator's Guidelines, Scheme Administrator's (Tender) Guidelines and FERM contracts.

We asked: *Have we sufficiently clarified the interface between the FERM and other market reforms?*

What we heard about the interface between FERM and other reforms	Our response
<u>Lack of Clarity on Reform Interactions</u> Some stakeholders remained concerned about the perceived lack of detail regarding the interaction of FERM with existing frameworks including the Orderly Exit Management Framework (OEMF), the Retailer Reliability Obligation (RRO) and broader reliability mechanisms. Stakeholders called for clearer definition of these interfaces.	We recognise industry's desire for clarity on how the FERM will interact with other existing and possible future policies. The final Regulations include provisions for enacting the OEMF in South Australia (regulation 35). The OEMF is viewed to be complementary to the FERM design and provides a framework for better managing the early exit of thermal generation, enabling a temporary extension to a generator's operation to maintain energy reliability and security.
<u>Interaction with the NEM Review</u> Some stakeholders questioned how the scheme would interact with the recommendations of the NEM Review (the Review's draft recommendations were not published until after the FERM consultation had concluded). Stakeholders strongly recommended that the implementation of FERM be aligned with the outcomes of the NEM Review. This alignment was seen as critical to avoiding duplication, ensuring coherence across reforms, and maintaining market stability during the transition. Some suggested the FERM be established with a formal review date or exit clause that could be linked to the implementation of the	The Department has engaged closely with the NEM Review throughout the design of the FERM and will continue to do so as it develops its final report and recommendations to government. However, given emerging risks outlined in the 2024 Electricity Development Plan, the FERM must progress ahead of the NEM Review's final report and recommendations. The Department notes that the FET and associated Tender Targets will consider long duration capacity contracted through other schemes (such as the CIS and the proposed ESEM) and enabling FERM activities to flexibly respond to circumstances in which other schemes deliver the required long duration firm capacity for South Australia. Recognising the pace of change in the NEM and following an evaluation of stakeholder feedback, the FERM Regulations now prescribe that the scheme must be reviewed within 5 years of implementation.

What we heard about the interface between FERM and other reforms	Our response
recommendations of the NEM Review.	This timeframe is considered appropriate as it allows sufficient policy stability for the industry in the short term while ensuring consumer's interests are protected in the long-term. The final Regulations require Market Customers and recognised electricity entities to comply with the requirements of any reliability and market liquidity obligations prescribed in Minister's Guidelines (regulation 33). The Minister's Guidelines are anticipated to provide further detail regarding how reliability and market liquidity obligations under the FERM may interact with both the current RRO and Nelson Review's proposed Market Maker Obligations.

Next steps:

Interfaces between the Scheme and other policies will be further clarified through the detailed drafting in the Minister's Guidelines and supporting scheme documentation, as required over time.

1.2 Scheme Operation

We asked: Do you have any feedback on the proposed governance framework and structures?

What we heard about scheme governance	Our response
<u>Clarity of roles and responsibilities</u>	Stakeholders raised concerns about the potential confusion and overlap in the roles of key scheme entities. In response stakeholders recommended greater clarity in the roles and responsibilities to support effective governance and accountability. We recognise the desire for further information regarding how the scheme will be implemented and which entities will undertake the functions outlined in the Regulations. We also recognise the need for sufficient transparency and accountability, whilst also managing confidentiality, probity and the commerciality of competitive tender processes.
<u>Transparency and accountability</u>	Stakeholders expressed concerns regarding the potential for reduced transparency and consumer engagement if the The final Regulations provide a governance framework which will enable the effective discharge of

What we heard about scheme governance	Our response
scheme's governance diverges from associated national frameworks. Stakeholders emphasised the importance of clear decision-making processes and stakeholder involvement to uphold accountability and trust.	scheme functions by independent scheme entities (including a Scheme Administrator, Scheme Regulator(s) and a Financial Vehicle). At a principles level, regulation 14 requires all scheme entities to act <i>'independently and in the long-term financial interests of South Australian electricity consumers'</i> and to <i>'act in a commercially prudent and reasonable way'</i>. The Scheme Regulator(s) (amongst other functions) will have the critical function of overseeing and monitoring the operation, performance and compliance of the scheme, including annual reporting and audit functions.
<u>Setting the Firm Energy Target</u> Several stakeholders recommended greater transparency in setting the Firm Energy Target (FET). Suggestions to achieve this aim included Scheme Regulator oversight of the inputs and assumptions that inform the modelling process and greater stakeholder input into the Electricity Development Plan, a key input of the FET. Additionally, stakeholders expressed that setting the FET before the start of the tender process would provide necessary certainty and allow for more informed bidding. Developers and operators of long duration storage assets proposed that the FET be comprised of sub-targets for different technology types.	The Department's OTR established an Electricity Development Plan reference committee in 2025, which includes members from AEMO, SAPN, ElectraNet and SACOSS to capture a range of regulatory market body, industry and consumer perspectives to the modelling underpinning the FET. The approach to undertaking modelling to provide advice to the Minister on setting the FET will remain similar to the methodology in the 2024 Electricity Development Plan. Further details of this approach will be provided in the 2025 iteration of the Electricity Development Plan.

Next steps:

In preparing for implementation, the Department is working to further clarify the scope of the functions assigned to scheme entities. The Scheme governance framework will be clarified through the detailed drafting in the Final Regulations, the scheme Risk Management

Framework, instruments of appointment for scheme entities and the Regulator's Guidelines. These instruments of appointment will be publicly released and gazetted to provide transparency and accountability.

We asked: Does our proposed Notice of Intention process clarify and reduce administrative burden on existing generators?

What we heard about the NOI process	Our response
<u>Need for the Notice of Intention (NOI) process</u> Existing LDFC providers expressed apprehension regarding the clarity and transparency of the NOI process, fearing it may lead to regulatory uncertainty. Other stakeholders generally viewed the NOI process as a necessary step for ensuring a level playing field in the market. They emphasised the importance of having clear guidelines and expectations related to the process relating to nominating a Capacity Commitment for existing generators to facilitate fair competition and address the potential for gaming.	The Department acknowledges the diversity of feedback raised in relation to the NOI process. The NOI process is integral to the scheme functioning efficiently including setting the FET and determining the capacity to procure through the scheme. This will assist to mitigate against the risk of under or over procurement due to poor visibility of future intentions of existing LDFC providers.
<u>Administrative burden and insufficient timeframes</u> Stakeholders raised issues about the potential for increased administrative burden and the impact on operational flexibility. Additionally, they expressed concerns about the timelines associated with the NOI process – several highlighted that the proposed 10 business day window was too short considering the required planning related to determining a Capacity Commitment 4 years in advance.	Whilst we acknowledge the additional requirements that the NOI places on existing LDFC providers, the Department considers that this should be balanced against the risk to the scheme if procurement under the scheme proceeds without a clear understanding of the intentions of existing LDFC providers. Requiring LDFC providers to state their intention to continue operating or exit for an upcoming five-year period is considered a reasonable and proportionate regulatory measure. Acknowledging concerns regarding the time to provide an NOI, we propose to increase the response timeframe from 10 business days to 15 business days.

What we heard about the NOI process	Our response
	The Department has sought to reduce the administrative burden placed on existing LDFC providers through this process. We propose to leverage existing reporting processes, such as the AEMO Generation Information and the MT-PASA (particularly if extended to 5 years as proposed by the NEM Review) to underpin an asset's NOI response, reducing additional administrative burden on assets.
<u>Compliance and enforcement</u> Some stakeholders highlighted that the proposed Tier 1 civil penalty was disproportionate to some NOI breaches, for example by not submitting an NOI response within the mandated timeframe. Several stakeholders also questioned the ability for an asset to provide a revised Capacity Commitment, for example if a generator's operating capacity changes. Related, they requested clarity regarding allowable 'excuse events' if an asset was unable to meet its Capacity Commitment.	Whilst understanding the concerns raised by stakeholders, the possible penalty for non-compliance with an NOI request or failure to meet the capacity commitment in the NOI has been retained as a Tier 1 civil penalty, commensurate with the risks to the scheme as outlined above. The NOI plays a key role in achieving the FERM scheme's objectives and is intended to operate as the primary regulatory measure in relation to the provision of LDFC by existing LDCPs. Recognising stakeholders' requests for a process for managing changes to a capacity commitment in a NOI, the Minister's Guidelines will provide details of: • An exemption process for a temporary change in capacity, for example for an asset to undergo unscheduled maintenance. • A revision process when an asset's Capacity Commitment will permanently change for the duration of the remainder of a Commitment Period. The exemption and revision process will be managed by the Scheme Regulator.
<u>Impacts on liquidity</u> Some stakeholder's suggested that publishing asset's Capacity Commitment may further reduce liquidity, as retailers and	Whilst the Department does not necessarily agree that publishing LDFC providers' NOI would impact contracting in the market, we have

What we heard about the NOI process	Our response
large load customers will have greater knowledge of the future capacity available to the market which may disincentivise their requirement to forward contract.	removed the requirement for publishing NOI results in the Minister's Guidelines, acknowledging the need for possible notifications to AEMO and the AER as a result of changes to closure years.
Eligibility Stakeholders also sought to clarify if any project with a storage capacity of over 240MWh is intended to be captured by the NOI process (i.e. irrespective of their registered nameplate capacity).	The Department will utilise the registered nameplate capacity and storage capacity as per AEMO's Generation Information page as the basis for determining the relevant capacity of a recognised electricity entities under the NOI.

Next steps:

The Minister's Guidelines will contain further information on the NOI process.

We asked: Are the eligibility requirements for existing and new generators clear? Do you have any concerns with these?

Feedback on the proposed tender eligibility criteria highlighted several concerns, with many stakeholders suggesting that the criteria may be too restrictive given the emerging development pipeline in South Australia. In general, there appears to be a variance in views between existing generators, who favour stricter criteria, and potential new entrants who advocate for more inclusive criteria to facilitate market entry.

What we heard about eligibility criteria	Our response
<u>Capacity</u> Some stakeholders suggested that the Department should allow a smaller minimum MW capacity for new or novel technologies to assist their entry to the market or to allow a BESS asset to reconfigure their output to 8+ hours irrespective of nameplate capacity.	Whilst we intend to maintain the 30MW, 8 hours capacity criteria, the Department is proposing to allow for aggregated facilities to participate, subject to criteria regarding the total capacity, capacity at each individual site and ability to meet performance obligations to the same standard as a single-site facilities.
<u>Registration</u> Stakeholders suggested that 'expansion projects' that extend their MW capacity or dispatch duration, including of CIS-funded projects, be eligible to participate in FERM tenders to minimise	At this stage the Department views that it may be challenging for expansion projects to participate in Tender 1. Following an evaluation of consultation feedback a decision

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What we heard about eligibility criteria	Our response
scheme contracting costs and increase tender competition.	has been taken to revise the eligibility criteria to enable LDFC providers who propose to substantially replace their current plant and equipment (subject to a range of criteria, regarding their current exit date and required capital expenditure) to be treated as new designated electricity entity for the purposes of a tendering for a 15 year FERM agreement.
<u>Project structure</u> Stakeholders viewed that the proposed requirements for project structures disproportionately impacted smaller or new entrants due to the associated costs. While most agreed with the need to establish assets as Special Purpose Vehicles for financial transparency, stakeholders suggested this be a contract milestone (e.g. required before FID), rather than criteria for tender eligibility.	Whilst the additional complexity and costs associated with a SPV structure is noted, the Department views this as necessary to clearly delineate asset revenue and costs and provide confidence to consumers that the scheme is paying no more than is necessary to LDFC providers under FERM contracts.
<u>Minimum development status</u> Stakeholders recommended this be a contract milestone due to the high cost of this process.	As suggested by stakeholders we are reviewing the requirement relating to development approval at the tender stage for Tender 1 including considering the application of different requirements across the three tender categories (i.e. for tenders associated with a shorter delivery timeframe this requirement may be retained).
<u>Additional eligibility criteria</u> Several stakeholders suggested additional eligibility criteria including: • Requirements to provide or support energy security services (ESS) including the requirement for a gas turbine to be fitted with a clutch. • Meeting minimum emissions standards.	We acknowledge the potential for broader efficiencies for the provision of ESS to be considered as eligibility criteria, however, maintain that proponents should investigate these opportunities with ElectraNet/AEMO (as appropriate) and use as a method to submit a competitive financial offer. The objective of the FERM remains targeted towards the

What we heard about eligibility criteria	Our response
	provision of long duration firm capacity.

Next steps:

Tender eligibility and bid assessment criteria will be made available in the Scheme Administrator's tender guidelines.

We asked: Do you agree with our approach to allow flexibility in the model under which exiting generators could be contracted (where required to meet the FET)? Do you foresee any risks with this approach?

Stakeholders broadly expressed support for a flexible contracting approach for existing generators to meet the FET, recognising the potential to enhance reliability, adaptability, and market responsiveness. However, several submissions highlighted risks and concerns.

What we heard about contracting with exiting generators	Our response
<u>Operational and Commercial Risks</u> Some stakeholder submissions outlined that the proposed flexibility may reduce contract volumes and increase commercial uncertainty for existing generators. It was expressed that this may potentially affect reliability if under-contracting occurs.	While noting stakeholders concerns about potential risks, the Department considers that it is prudent to retain provisions to enable contracting under the proposed negotiated contract process, where required to meet the FET. The final Regulations include provisions for enacting the OEMF in South Australia (regulation 35). The OEMF is viewed to be complementary to the FERM design and provides a framework for better managing the early exit of thermal generation, enabling a temporary extension to a generator's operation to maintain energy reliability and security.
<u>Market and Consumer Impacts</u> Some stakeholders were concerned that without clear criteria and oversight, the proposed flexibility to contract existing generators could distort the market, reduce competition and increase costs for consumers.	

We asked: Does the proposed tender process for new generators present any challenges or concerns?

Stakeholders provided feedback on the proposed bid assessment criteria of the tender process for new generators.

What we heard about the tender process		Our response
<u>Assessing project deliverability</u>	There were calls for more detailed guidelines on the criteria against which bids will be evaluated, such as technical capability, to ensure a fair assessment process.	
<u>Assessing project financial value</u>	Stakeholders expressed apprehension about the clarity and transparency of this criteria. Some suggested an asset's level of contracting or the value of the contracting be considered within this criterion. Others suggested the total value of energy be considered in bid assessment. For example, LDES assets that capture additional value by using energy that might otherwise be lost or the 'round trip' cost of energy.	The Department noted stakeholder feedback on the proposed bid assessment criteria, in particular the recommendation that additional information and guidelines be provided to the market. The Scheme Administrator's tender guidelines will provide additional information regarding the documentation and process that it will undertake in assessing bids against the broad criteria established by the Department. We consider that this additional detail will address many of the issues raised.
<u>Additional assessment criteria</u>	Some stakeholders suggested that an assets' total contribution to the grid (such as inertia, system strength) be also valued in the bid assessment criteria.	

Next steps:

Tender eligibility and bid assessment criteria will be made available in the Scheme Administrator's tender guidelines which will be published as part of Tender 1 materials.

1.3 Scheme Obligations

We asked: *Do you foresee any risks with our proposed approach to calculating net revenue under the cap and collar model? Do you agree that fuel/energy import costs should be excluded?*

There was a noticeable variance of feedback regarding the commercial model between existing generators (which may be less impacted due to the proposal to undertake direct negotiations with these assets) and new entrants (that would be subject to the commercial model under a FERM contract). Existing generators were generally supportive of the cap and collar model but cautious about financial impacts whereas new entrants were more critical, expressing concerns about market entry barriers and competitiveness.

What we heard about the proposed FERM Agreement and commercial model	Our response
<u>A new model poses some challenges to the market</u> Whilst there was generally positive feedback regarding the commercial model, some stakeholders found the model difficult to understand and to assess against models used in the LTESA, CIS and elsewhere and as a result shared some uncertainty regarding the financial implications of the cap and collar model. Several stakeholders requested more detailed information regarding allowable revenues and costs and suggested that worked examples or detailed pro forma templates of the revenue calculation for specific technology types may be useful to support preparation of tender responses.	The Department notes feedback and has taken this into consideration in finalising the commercial model. The provision of supporting materials to enable an efficient and transparent tender process will be managed by the Scheme Administrator.
<u>Some adjustments could be made to the model</u> Several stakeholders proposed adjustments to improve the performance of the model, including adjusting the cap and collar thresholds to better align with market volatility and reduce perverse incentives.	

What we heard about the proposed FERM Agreement and commercial model	Our response
<u>Treatment of fuel and charging costs</u> Stakeholders highlighted several issues related to fuel-price including challenges with estimating fuel prices over a 15-year period given this is significantly longer than the contracting horizons in the market today. Stakeholders were concerned that placing fuel price risk on generators at the bid stage may transfer this risk to electricity consumers through the bidding of conservative (high) floor values and hence increased scheme costs, borne by consumers. Stakeholders recommended that the Department reconsider the approach to fuel and charging costs including: • to reflect the tenor of fuel contracts currently provided by the market. • To allow charging costs as allowable revenue, noting that this is a critical input to the financial approach of LDES (such as through arbitrage).	The Department proposes that a standard approach for calculating fuel costs is adopted, including the requirements for proponents to submit a proposed fuel price to the Scheme Regulator 12 months prior to commercial operations and for each three-year Fuel Price Period thereafter on a rolling basis. The Department proposes for the Scheme Regulator to make a Fuel Price Determination for each relevant generator for each Fuel Price Period. Further information about the process and any requirements on contracted assets will be outlined in tender documents. This approach seeks to more effectively balance fuel price risks between LDFC providers and consumers. Accordingly, the commercial model is proposed to be updated such that Fuel is added to allowable costs. To maintain technology neutrality, the Department proposes for charging costs to be added to allowable costs in the commercial model.
<u>Duration of underwriting support</u> Numerous stakeholders provided feedback on the proposed contract terms. They suggested more flexible contract length to ensure there is not a 'capacity cliff' with synchronised asset retirements at the conclusion of FERM contracts and to support a greater range of technology types, including those with a longer operational life.	Whilst acknowledging the concerns raised, the Department has elected to maintain a standardised contract term of 15 years for new LDFC providers.
<u>Transparency</u> Transparency in contracting was also highlighted by some stakeholders with suggestions that contracts be published (minus any	Whilst acknowledging the concerns raised with respect to transparency, the Department notes the need for the protection of

What we heard about the proposed FERM Agreement and commercial model	Our response
confidential commercial details) for the awareness of all market participants, and to inform their own commercial decision making.	commercially sensitive information to enable efficient and fair tender processes.

Next steps:

Commercial model and payment calculations will be contained within the FERM agreement provided with Tender 1.

We asked: Do you support our proposed approach to require both generators and retailers (and other large load customers) to meet a minimum contracting obligation to enhance supply reliability? Would you prefer a FERM-specific approach such as outlined in the draft Minister's guidelines, or to permanently activate the RRO instead (for the retailer obligation). Do you have any feedback on the method for identifying obligated participants, the types of contracts to include, or the minimum firmness rating of contracts?

There was a noticeable variance of feedback regarding the model between existing LDFC providers (which include vertically integrated operators) and other developers. Existing LDFC providers indicated some support for a reliability obligation (RO - a buy-side obligation on retailers), while expressing caution about a market liquidity obligation's (MLO - a sell-side obligation on generators) regulatory burden and compliance costs. Developers were supportive of an MLO to enable entry to the market.

Several stakeholders highlighted the early signals from the NEM Review regarding the introduction of a market-making mechanism and encouraged the Department to align any FERM obligations with this approach.

What we heard about market liquidity and reliability obligations	Our response
<u>Concerns with adapting the RRO</u> Many stakeholders raised concerns with the FERM's reliability and market liquidity obligations seeking to align with some of the broad concepts from the existing RRO, given their view that the RRO has had significant challenges and may not have achieved its aims. Stakeholders shared concerns regarding the cost impacts of the FERM adopting an 'RRO style' obligation.	The Department recognises and thanks stakeholders for their extensive feedback regarding the proposed approach to adopt a 'RRO style' reliability obligation through the FERM. The Department also notes the significant challenges with contract liquidity in the South Australian energy market and the concerns raised during the Stage One consultation that the FERM may increase these issues. The Regulations therefore retain a framework to introduce reliability and market liquidity obligations on market customers and recognised electricity entities (regulation 33). In acknowledging stakeholder requests for further consultation on the proposed obligations, as well as the parallel work undertaken by the NEM Review, the Department will engage further with industry and other stakeholders during Q4 2025 and Q1 2026 with the aim of Guidelines detailing the obligations to be released in mid-2026.
<u>Further detail on the obligations required</u> Some stakeholders shared there was insufficient clarity on the implementation of the market liquidity and reliability obligations, including how the obligations would interact with the national RRO scheme.	
<u>Need for integration and simplification</u> Various stakeholders also cautioned against the potential for any obligations to introduce unnecessary complexity and cost. Stakeholders urged for simplification and better integration to reduce administrative burden and ensure efficient implementation.	
<u>Specific design features</u> If obligations are imposed, stakeholders proposed amendments to the obligations including: • Allowing demand response in place of contracting • Allowing assets to miss 10 trading periods a month without consequence	

What we heard about market liquidity and reliability obligations	Our response
- Limiting obligations to assets with FERM contracts - Explicitly supporting innovative and emerging contract types.	

Next steps:

Details of any MLO and RO on market participants through the FERM will be clarified through Ministerial and Scheme Regulator Guidelines, to be released in mid-2026.

We asked: Do our proposed performance requirements and processes for assessing assets' performance alleviate any previous concerns you may have had about the scheme's performance requirements?

What we heard about performance requirements and compliance	Our response
<u>LOR2,3 as a performance measure</u> Stakeholder feedback on the proposal to use LOR2/3 events as performance measures highlighted several concerns. Some suggested that these measures may not adequately reflect the operational realities faced by assets. Additionally, stakeholders expressed concern about the potential for these measures to create unintended consequences, for example, accelerating an LOR event by requiring storage assets to charge. Proposed amendments to the performance measures included incorporating additional metrics that better capture overall system performance and reliability. Some stakeholders also proposed alternative performance measures that focus on broader indicators of market health and generator performance, such as the 'availability' approach of the CIS. Numerous stakeholders requested further clarification of reference to 'best efforts' in meeting	The Department acknowledges the breadth of feedback regarding LOR2,3 performance measures. The Department maintains that consumers must be provided with some assurance that the underwriting support provided to LDFC providers will result in the reliability and resilience benefits. In comparison to other asset types (e.g. renewables, short duration batteries), the Department's view is that LDFC providers performance is best assessed by their response to system stress (e.g. LOR2,3) events given this measure assesses if capacity is provided when it is most needed. The Department is also exploring whether the LOR2,3 performance measures should be complemented by availability requirements (and payment rebates) in the FERM contract agreement. The FERM contract agreement will be provided by the Scheme Administrator at tender launch and provides further clarity of the specific

What we heard about performance requirements and compliance	Our response
performance obligation and how this would be measured. Numerous stakeholders were concerned that the severity of Tier 1 civil penalties may be disproportionate to the non-compliance with obligations under the FERM Regulations, resulting in unintended consequences such as a withdrawal in market participation and investment. There were also concerns about the clarity and transparency of the penalty application process including questioning which scheme entity is best placed to perform this process (i.e. Scheme Administrator or Scheme Regulator). Proposed amendments included the introduction of a tiered penalty system that considers the severity of the violation; establishing clearer guidelines and criteria for imposing penalties; and implementing a review process to ensure fairness and accountability. <u>Civil penalty regime</u>	performance obligations on contracted participants as well as applicable penalties. The feedback received has been considered in the development of the agreement. The Department notes that there are both Tier 1 and Tier 2 civil penalties for key performance obligations and reporting obligations respectively under the Regulations. The Scheme Regulator will be responsible for monitoring compliance and administering the civil penalty regime in accordance with their guidelines.

Next steps:

Details of performance obligations will be contained within the Final Regulations, Regulator's Guidelines and FERM agreements.

We asked: Do you have any further concerns with our proposed cost recovery approach?

What we heard about scheme cost recovery	Our response
<u>Costs to borne by consumers</u> Stakeholders expressed concern that liabilities could be shifted onto participants without adequate safeguards and called for greater transparency in the cost recovery processes.	The Department acknowledges the issues raised by stakeholders regarding Scheme costs and cost recovery arrangements. We remain committed to working with stakeholders to ensure the equitable and efficient

What we heard about scheme cost recovery	Our response
Business and consumer advocates reiterated concerns expressed in the Stage One consultation on possible impacts on electricity bills, particularly for financially vulnerable customers.	sharing of costs during implementation and operations. The Department has designed the FERM with cost efficiency front of mind, as reflected in the contract commercial model which seeks to cap downside risks. Further, the Department notes that whilst the Scheme may result in costs on the network charges component of customer's bills, it is also anticipated to place downward pressure on wholesale energy prices in the future, which may offset the overall net cost of the Scheme to consumers. The Scheme design includes the Transmission Network Service Provider (TNSP) cost recovery mechanism, which (in comparison to other state's mechanisms) seeks to enable the equitable recovery of costs from all electricity consumers. The Department has been engaging with both the AER and ElectraNet during the drafting of the Regulations. The contribution determination process set out under the regulations will be undertaken independently by the Scheme Regulator, in accordance with their guidelines (which will be publicly available). This process will involve assessing scheme administrative, financing and contract payments (or revenues) to determine the efficient amount to be recovered from consumers. In determining the cost to be recovered, the Regulator is anticipated to consider a range of factors including: • A minimum prudent balance, for liquid operations of the Scheme Fund. • A maximum balance, ensuring that the fund does not recover from consumers unnecessarily.

What we heard about scheme cost recovery	Our response
	Historical and forecast cash-flows to smooth variability in determinations (where possible). Where the Regulator determines that the Fund may have excess revenues, this can be returned to consumers via off-setting of future payments or negative cost determinations.

Next steps:

Details of the cost recovery process will be contained within the Final Regulations, Regulator's Guidelines and any separate materials prepared by Network Service Providers.

1.4 Scheme Implementation

We asked: Does the proposed implementation timeline for the FERM cause any concerns or are there any further considerations that the Department should be aware of?

What we heard about our delivery timeline	Our response
<u>Accelerated delivery</u> Some stakeholders were concerned the proposed timetable was too ambitious and potentially limited the opportunity for meaningful consideration of stakeholder feedback.	Throughout the project, the Department has consistently articulated the proposed implementation timetable and the urgency of ensuring adequate LDFC supply is available in the market before a forecast shortfall. Current projections indicate that South Australia will have a shortfall in required long duration firm capacity from 2026-2027. Given the multi-year lead time for the development of new long duration capacity assets, there is a pressing need to expeditiously implement the FERM to secure the necessary firm capacity by the end of calendar year 2028. As outlined above, the Department will continue to engage stakeholders on the development of the market liquidity and reliability obligations, noting the significant stakeholder feedback provided to this issue.

Next steps:

A market announcement providing details of Tender 1 is expected to be made in early Q4 2025 with details published on the Department's website.

Further information

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