

Firm Energy Reliability Mechanism

Stage 2 Consultation Information Session

June 2025



Acknowledgement of Country

As guests here on Kurna 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.

NgaityaIngadlu taikunthitya yalaka

Yantupinarna Kurna yartangka, ngadlu tampinthe tupa yaintya pirku wapinthe, wiwunthe yaitya yarta, yarlu, ngayirda, miyurnakuma paraku tuwila tapa purruna tarraitpayinthe. Muna tirtu parrka-parrka wanti.

Ngadluku taingi ngutu yungkurinthe, tampinthe yurni ngantanthe pukingka, niipurna pintyathi mankurrititya, taingintya tarrkarri pintyanthe.

Nata ngadlu padnitha, tirkatha Kuma kumangka warpulayi-utha.





Purpose

To provide an update on the Firm Energy Reliability Mechanism (FERM) and to support further discussion of key elements of the design.

Agenda

1 **Stage 1 consultation feedback** and how that has influenced design decisions

2 **Scheme design:**

- What's changed
- Where we've added more detail

3 **Q&A**

Today you'll be hearing from:

- **Vince Duffy**, Deputy Chief Executive, Department for Energy and Mining
- **Rebecca Knights**, Executive Director, Department for Energy and Mining
- **Lachlan Pontifex**, Director Policy, Department for Energy and Mining

Who are supported by members of the Strategic Policy and Delivery Division, Department of Energy and Mining:

- Ross Anderson
- Isabella Dunning
- Rachael Leverton
- Andrew Schultz

Opening remarks



FERM consultation process

- This consultation reflects the transition from policy concept to detailed design and provides an opportunity for stakeholders to provide specific feedback to inform the final design of the scheme prior to implementation.



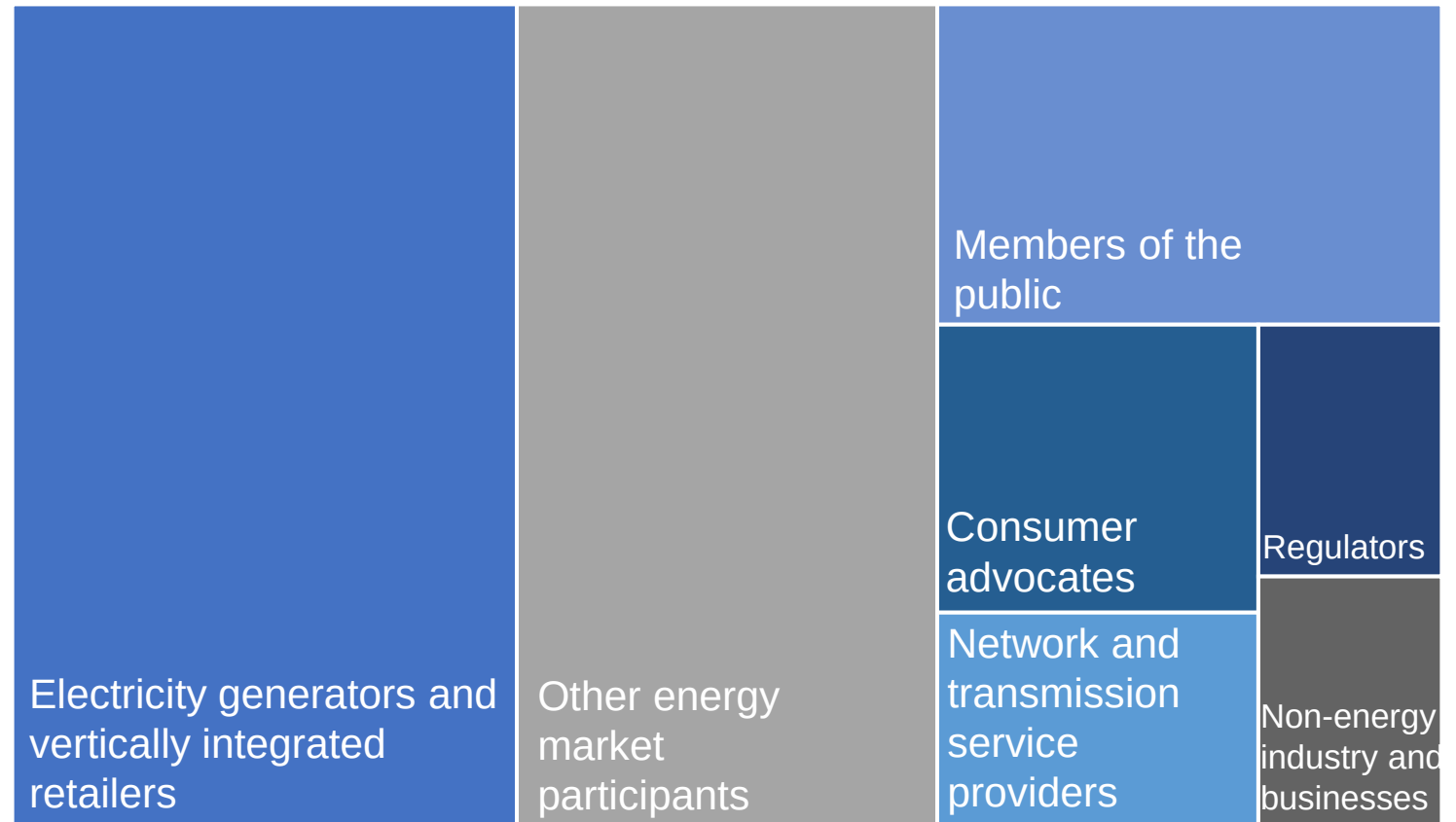
2. Stage 1 Consultation Feedback - Summary



Stakeholders generally supported the scheme

- Fifty-one formal submissions received.
- Three common themes across segments:
 - Reliability and resilience at least cost
 - Impacts on liquidity and competition
 - Interplay with the external environment.
- These themes have influenced a range of design decisions.

Stage 1 consultation responses by category



What we heard from stakeholders



	1. Reliability and resilience at least cost	2. Liquidity and Competition	3. External environment
What we heard:	Minimise scheme costs and possible cost impacts, particularly on hardship customers.	Concerns that the revenue underwriting mechanism and net revenue calculation methodology may negatively impact liquidity by disincentivising market contracting.	Clarify the interface between the FERM and other broader market changes such as the NEM review and OEMF.
Design decision/s:	- Recover scheme costs through TNSP's which will pass these on to be shared equitably by all energy customers. - Concessions to be considered through established SA Government concession framework.	- Introduce market liquidity and reliability obligations on long duration capacity providers and retailers and large load customers to promote reliability and secure supply. - Exclude some specific costs in the net revenue calculation.	- Operationalise the OEMF through the FERM regulations. - Use both regulatory and policy tools to implement the scheme, allowing flexibility to update elements as required to reflect developments in the external environment.

3. Scheme Design

High-level overview of scheme design



Design decisions overview



What's changed:	Areas we've prescribed in greater detail:
1. Updated objectives and core principles 2. Adoption of separate, complementary approaches for existing and new providers 3. Introduction of liquidity and reliability obligations	1. Eligibility 2. Tender bid assessment criteria and process 3. Cap and collar commercial model 4. Performance obligations 5. Setting the FET 6. Cost recovery approach (TNSP-based) 7. Governance arrangements and entities

What's changed: refined objectives and core design principles



Mission: secure, reliable and affordable electricity supply for South Australia

Objectives

Core design principles



Provide **confidence** to energy users in **the resilience and reliability of the power system** and reduce the impact of energy price shocks.



Provide **confidence** for the state government and industry **that the power system will not inhibit economic activity**.



Incentivise investment in long duration firm capacity **at the lowest cost to consumers** and **within emission reduction targets**.

Operate **independently** from the Government of South Australia.

Manage an orderly transition to new capacity.

Provide the necessary, and only the necessary, revenue certainty to firm generators whilst allowing consumers to share in upside.

Remain agile to market volatility and longer-term market changes.

Support **liquid and competitive wholesale and retail electricity markets**.



What's changed: process for existing and new providers

Competitive tender for new assets



- Eligible new long duration firm capacity providers are able to participate in a competitive tender for FERM contracts.
- Ministerial guidelines will outline key parameters (target MW's, eligibility criteria, bid assessment criteria).
- Tenders will be designed not to duplicate other government approval processes.

Tender eligibility and documentation requirements will be published in guidelines.

Notice of Intention for existing assets



- Existing long-duration firm capacity providers respond to a Notice of Intention (NOI) advising if they will be in the market for a specified period and their capacity for this period.
- The NOI process will capture existing assets, with 30MW/8+ hours dispatch & that are connected to SA region of the NEM.
- Failure to submit an NOI response, and non-compliance with a response, may result in the application of a penalty.

Existing assets that are required to participate in an NOI process will be published on the DEM website.

What's changed: introduction of liquidity and reliability obligations

Obligations are based on the RRO/MLO and will apply to existing and new long duration capacity providers (market liquidity obligation) as well as retailers and large-load customers (reliability obligation).

	Market Liquidity Obligation	Reliability Obligation
Obligated participants	Existing and new LDFC providers.	Retailers and large load customers with demand >10GWh/year.
Obligation	Offer a minimum 20% of their Capacity Commitment.	Have sufficient contracts to cover their 1-in 2-year peak demand.
Eligible contracts	Minimum of 1MW. Maximum bid/spread offer.	Standardised peak futures or cap PPA's with firm capacity providers Innovative or bespoke that are aligned with scheme objectives (e.g. evening peak).
Minimum firmness rating		0.8
Reporting obligations	In advance forecast In arrears report In arrears compliance declaration	

Where we've added detail: eligibility and bid assessment criteria



	Eligibility for tender process	Eligibility for NOI process
Capacity	30MW/8+ hours continuous dispatch	
Connection	Connected to the SA region of the NEM	
Technology	Coal/nuclear not eligible	N/A
Registration/Operational date	By date specified in guidelines for relevant tender	Registered and operating before NOI release date
Funding	Can not be in receipt of CIS or similar funding	N/A
Project structure	Must be a special purpose vehicle or otherwise appropriately ring-fenced	N/A
Development status	Must have secured land tenure and received development approval	N/A

Title	Broad description of bid assessment criteria
Project deliverability and timetable	Progress towards achieving key development milestones and feasibility of reaching Financial Investment Decision and commercial operations
Financial value	The value of a bid through set floor, threshold and ceiling values and ability to contribute to reducing wholesale electricity market costs and reduce volatility
Commercial departures	Materiality of changes to risk allocation and additional administrative burden or new risks from what is set out in tender documents.

Where we've added detail: commercial model



The '**cap and collar model**' is proposed to be retained for new assets. Capacity providers submit three financial bid variables:

1. **Revenue ceiling:** the ceiling above which the capacity provider retains excess revenue (bid variable)
2. **Revenue threshold:** the long-duration firm capacity viable project revenue (cost basis)
3. **Revenue floor:** the expected revenue from market and contracts (revenue basis)

Capacity providers will calculate and advise the SFV of their actual revenue and scheme payment annually.

Excluded costs include:

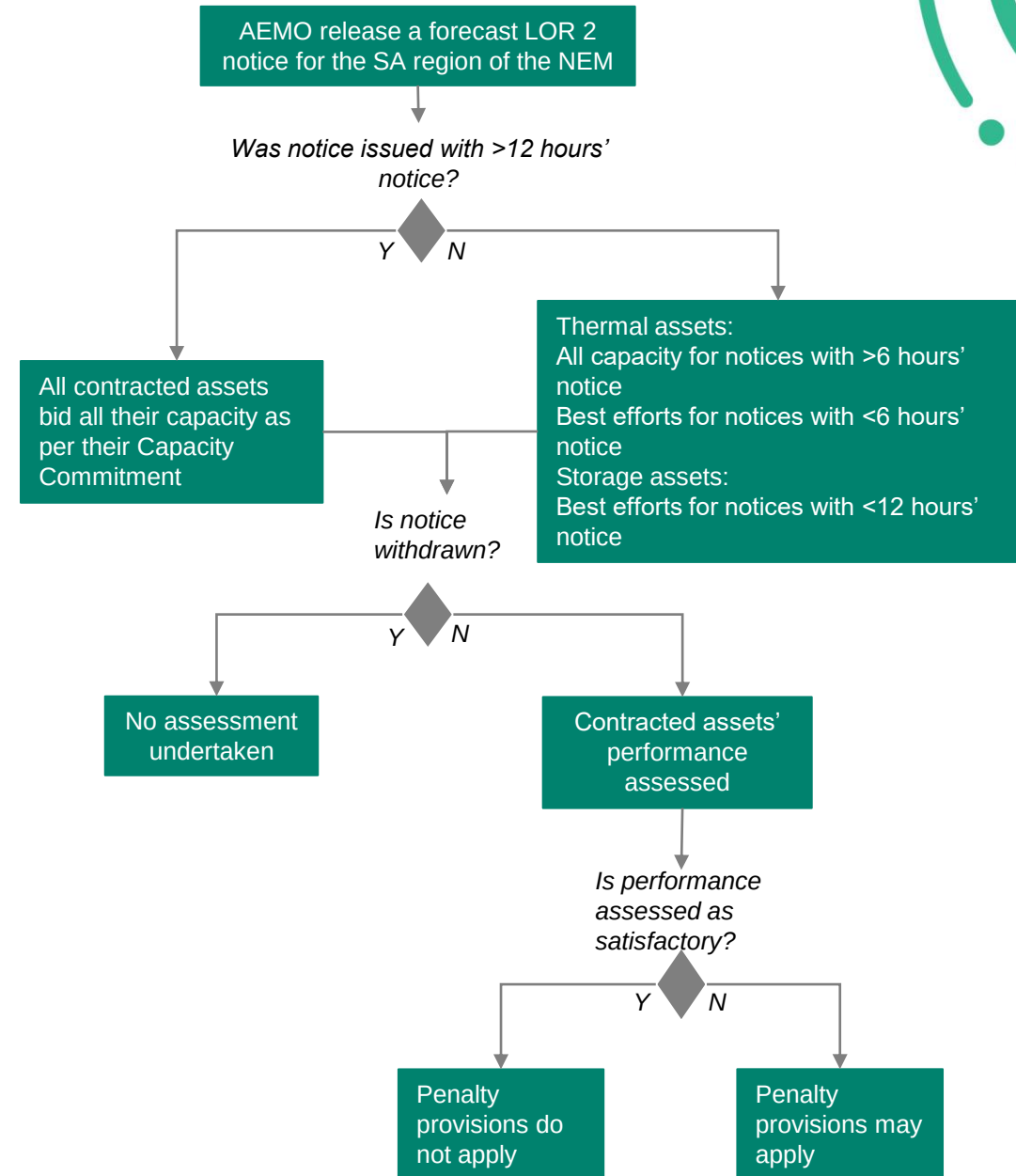
- Decommissioning costs
- Fuel costs & electricity imports
- Costs of providing ancillary services
- Routine O&M and plant upgrades and overhauls
- Non-operational costs
- Penalties and fines

Excluded revenue includes:

- Income unrelated to energy market operations
- Government subsidies including grants and tax credits

Where we've added detail: performance criteria

- Requirements differ based on the period of advance notice and technology type:
 - >12 hours, all asset types to make all their capacity available
 - <12 hours, some accommodation for performance requirements of storage assets
- Asset performance will be assessed if a notice is not withdrawn and the event escalates to an actual event.



Where we've added detail: setting the FET

- The Firm Energy Target (FET) is a key component of the FERM and will inform the amount of Additional Capacity to be contracted under the scheme.
- The FET will be set by the Minister for Energy and Mining, considering the Electricity Development Plan (EDP) and other inputs as appropriate.
- The FET will be published on the DEM website
- The Additional Capacity that is procured through the FERM will be based on the FET and consider the Capacity Commitments made under the NOI responses for the relevant years.

Required Additional Capacity

Additional Capacity_N = FET_N - $\sum$ capacity commitments_N, where

FET_N = the Firm Energy Target for year N

$\sum$ capacity commitments_N

= the sum of individual capacity commitments made under an NOI process and capacity commitments made through relevant contracts for year N.

Where we've added detail: governance

The scheme is proposed to **operate independently from the Government** within a transparent and accountable governance framework.

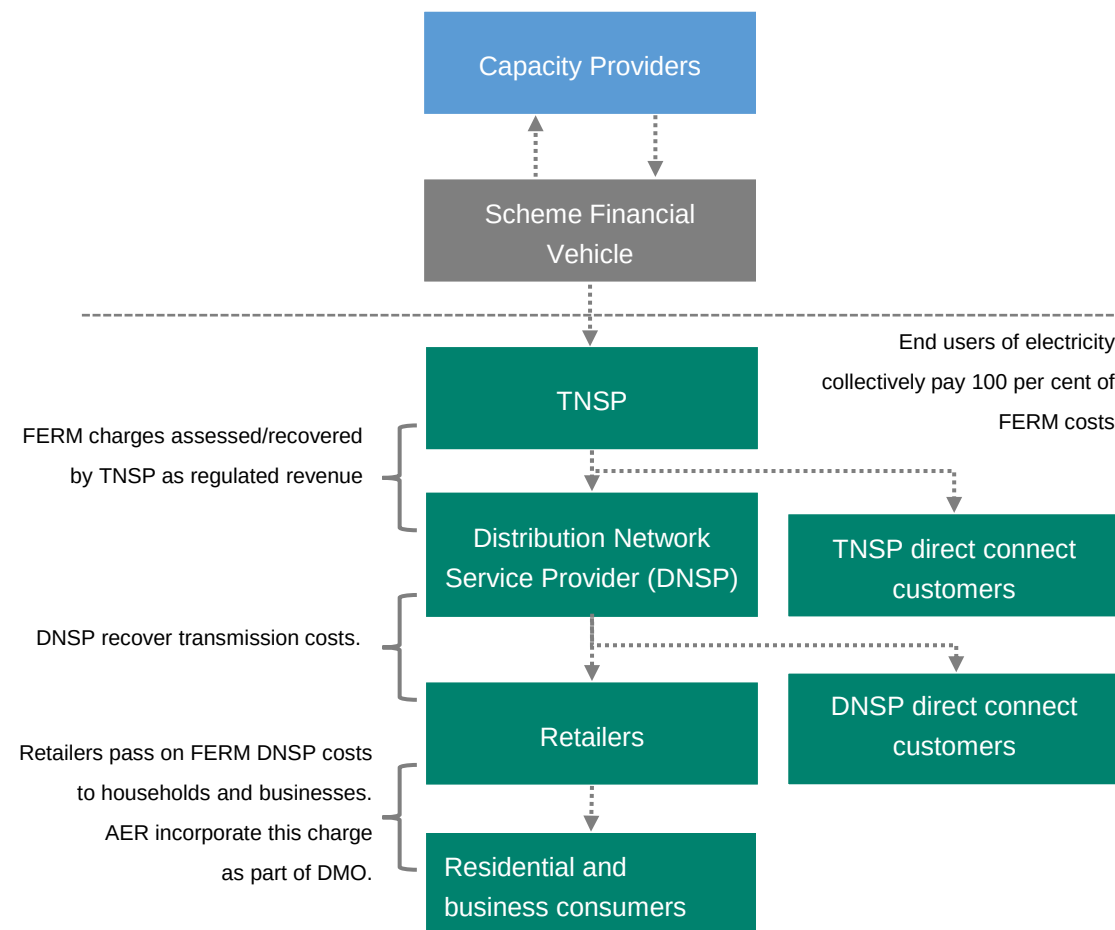
Scheme Administrator	Scheme Financial Vehicle	Scheme Regulator(s)
• Prepare NOI, tender and contractual documentation • Conduct NOI and tender rounds and assess bids and make recommendations to the Scheme Financial Vehicle • Develop and maintain a scheme risk management framework	• Enter into contracts with capacity providers • Administer the scheme fund, make and receive payments • Monitor contractual performance and compliance by capacity providers	• Audit the performance of the scheme entities and prepare an annual report on the scheme • Monitor compliance of capacity providers and other market participants with scheme obligations • Issue Contribution Determinations

Where we've added detail cost recovery

Scheme costs will be recovered through **South Australian transmission network service providers (TNSPs)**, who **will be able to pass those costs on** to ensure that:

- 1 Scheme costs are distributed across all energy consumers
- 2 Scheme costs are transparent for stakeholders
- 3 Scheme contracts will be bankable for capacity providers and encourage investment decisions.

The timing of recovery will integrate into existing network regulation pricing processes.



4. Q&A



Key areas of interest for this session

- Do you agree with our refined mission, objectives and core principles statements?
- Are the eligibility requirements for existing and new generators clear? Do you have any concerns with these?
- Does the proposed tender process for new generators present any challenges or concerns?
- Do you support our proposal 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 or to permanently activate the RRO instead (for the retailer obligation)?
- Does our proposed Notice of Intention process clarify and reduce administrative burden on existing generators?
- 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?
- 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?
- Do our proposed performance requirements and process for assessing an assets' performance alleviate any previous concerns you may have had about the scheme's performance requirements?



Making a submission

Please provide further feedback in one of two ways:

- **Submitting via YourSAy:** Upload your submission on the consultation page on the South Australian Government consultation website at: YourSAy.sa.gov.au/FERM
- **Submitting via email:** Send your submission to dem.ferm@sa.gov.au with the subject line “FERM Stage 2 Consultation”.
- This consultation will close on **14 July 2025**.

- All submissions will be published on the state government website including your name and organisation (if applicable). Your contact details will not be published.
- Please indicate clearly on the front of your submission if you would like it to be treated as confidential, in full or in part, and the reason why it should not be made publicly available.
- Under the Freedom of Information Act 1991, the Government may also be required by law to release your submission to a third party. If a request is made under the Act, you will be contacted prior to the release of any material.
- **To discuss the consultation further, please contact the team at dem.ferm@sa.gov.au**

**Thank you for your time and
participation in this initiative for
South Australia.**

